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PORTIGAL

**Music industry** 

Growth hopes pinned on DVD format

Technology, Page 19



After Meridor's departure



After Amsterdam



Management Consultancy

World Business Newspaper http://www.FT.com

#### **EU** summit ends in deadlock and diluted treaty

German political parties and French leaders expressed cautious satisfaction yesterday with the outcome of the European Union summit in Amsterdam. Talks ended in the early hours, producing a watered-down treaty and papering over Franco-German differences on jobs and budget austerity. But it put off institutional reforms aimed at smoothing the way for enlargement until the EU admits new members

from central and eastern Europe early next century. That makes it likely EU leaders will have to convene another conference to try to resolve the issue. The deadlock followed debate at the summit between larger members, seeking to tilt the balance of power to reflect their populations, and smaller countries, battling to preserve their over-representation. Summit reports, Page 2; Editorial comment, Page 11

Finance chief to quit in wake of defeat



Thai finance minister Amnuay Virayan, left. will submit his resignation today in a move likely to throw the country's financial markets into further disarray. Prime minister Chavalit Yongchafyudh brought in Mr Amnuay, a non-MP and former president of Bangkok Bank, to

shore up investor confidence in Thailand's struggling economy. But a humiliating defeat on an issue of fiscal policy made it clear that Mr Amnuay did not have the political clout to push through tough measures to clean up the country's ailing financial system. Page 12

Rival faction 'holds Pol Pot': Khmer Rouge leader Pol Pot is reported to have surrendered to a rival faction of former colleagues in a remote guerrilla stronghold in northern Cambodia. Cambodian deputy army chief of staff Gen Nhek Bunchhay said they planned to hold him until he could be judged by an international tribunal for his role in the genocidal regime he led that caused the deaths of 2m Cambodians between

1975 and 1979. Page 4 Italian pension talks: Italy's centre-left government initiated talks with trade unions and employers on cuts in the country's costly state-run pensions system. The German cabinet. meanwhile, approved plans to overhaul state pensions and make 1.8m civil servants contrib-

ute to their retirement benefits. Page 3

Foreign demand boosts Germany: The German economy resumed its growth trend arly in 1997, but it is too ear domestic demand is developing strongly enough to match demand from abroad, the Bundesbank said in its monthly report. Page 3

Polish offer oversubscribed: An initial public offering in Bank Handlowy, one of Poland's largest banks, has been heavily over-subscribed. Institutional investors are set to receive only six shares of every 100 ordered. The offer values the bank at about \$1bn. Page 18

**Italians in Romanian deal:** The Italian machine tool industry has set up a consortium to buy low-cost parts from Romania, in a further sign of increasing trade in engineering components between western Europe and the former communist bloc. Page 6

Bakun rights issue scrapped: The financing for Malaysia's Bakun hydroelectric dam, one of south-east Asia's most significant infrastructure projects, suffered another setback when as a planned M\$3bn (US\$1.2bn) rights issue to help fund it was scrapped. Page 13

Nigeria's debt arrears up \$10bn: Nigeria has accumulated \$10hn in arrears on debt repayments to western creditors over three years while failing to account for earnings from oil exports, says the World Bank. Page 12

Tractebel's Kazakh gas contract: Tractebel of Belgium has won a contract to manage Kazakhstan's natural gas pipeline network for 15 years, beating Argentine oil company Bridgs. Page 6

DKB auction ban: Japanese bank Dai-Ichi Kangyo was suspended from taking part in auctions of Japanese government bonds because of its role in recent financial scandals. Page 13

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THURSDAY JUNE 19 1997

EU faces even tougher challenges

Today's surveys

Power Generation Equipment

## Russia and China to agree \$7bn

energy deal Plan to develop oil and gas fields and build pipeline

By Tony Walker in Beijing

China and Russia are poised to agree on the \$7bn joint development of oil and gas fields in eastern Siberia, including construction of pipelines to China. An official at the Russian embassy in Beijing said two long-awaited "framework" energy agreements, or memorandums of understanding,

week's visit to China by Mr Victor Chernomyrdin, the Rus-Sian prime minister. The agreements will deal separately with the develop-

would be signed during next

ment of oil and gas deposits and pipeline construction. China has begun a drive to increase energy supplies since it became a net importer of oil

in 1993. Imports are expected to rise to 50m tonnes by 2000 from 22m last year. China produced 157m tonnes in 1996.

Russia and China have been mulling over development of rich gas fields in the Krasnoyarsk, Irkutsk and Yakutsk areas of Siberia and construction of at least one pipeline to China's Yellow Sea coast near Shanghai.

Under the plan, 20bn cubic metres of gas would be shipped to China annually, with provision for re-export to South Korea and Japan. Japanese and South Korean companies would be invited to invest in the pipeline project.

Chinese and Russian leaders are pushing for a more extensive commercial partnership. and joint development of Siberian resources would speed this. At a summit meeting in Moscow earlier this year, Mr Boris Yeltsin, Rus- China visit: Chernomyrdin sian president, and Mr Jiang Zemin, his Chinese counter- in Kazakhstan's Aktyubinsk part, discussed ways in which two-way trade might be increased from about \$7bn last while reducing China's loomyear to \$20bn.

China depends on coal for about 80 per cent of its energy, but wants to use more gas. Mr Li Peng, prime minister, recently urged greater use of China's abundant reserves.

East-West Centre in Hawaii, China's natural gas consumers will double by the end of the century, leaving China in deficit by one-quarter of its total demand, even with anticipated production increases. China's

natural gas output in 1996 was 20.1bn cubic metres. China's national oil company recently agreed to pay \$4.3bn for a 60 per cent stake

Worldwide demand for energy expanded by 3 per cent last year, the highest growth rate since 1988. In its annual statistical review of global energy, BP said that present growth in demand is more than double the average over the last 10 years.

Mr Peter Davies, the review's editor, said 1996 was "an exceptionally strong year for energy consumption, primarily due to an upturn in the economic cycle and unusually cold weather in the northern hemisphere."

Big increase in demand for energy, Page 22



oil company as part of moves to secure long-term supplies ing oil import bill.

Mr Chernomyrdin will be in Beijing from June 26 to 28 as part of a growing series of Sino-Russian contacts.



Turkey's first Islamist prime minister Necmettin Erbakan (left) with coalition partner Tansu Ciller. Mr Erbakan resigned yesterday, setting in motion a plan under which Mrs Ciller, leader of the secular True Path party, will take over the premiership. Report, Page 3

## BAe and Lockheed link to develop strike fighter

with Lockheed to provide a

Lockheed has repeatedly

manufacturing after it was

in the airliner business in the

1970s. However, industry ana-

By Bernard Gray in Paris

British Aerospace has joined Lockheed Martin, the US defence giant, in a \$100bn programme to develop the next rival to Boeing in I generation of light fighter and civil markets. aircraft for the 21st century. The alliance raises the almost entirely in military-re-

long-term possibility of a lated businesses, is more caumerger between the two com- tious. But the company has panies. After months of been alarmed by the recent aircraft to buy in 2001. revarication, BAe yesterday finally rejected offers from the rival Boeing team, to join merge - a plan that would cre-Lockheed in its bid to develop the joint strike fighter. To win BAe's hand, Lock-

heed has offered the company a 12 per cent share of the said that it does not wish development and production to re-enter civil aircraft work on the entire JSF programme, a deal that is brought to its knees by failure likely to be worth more than £10bn (\$16.3bn) to BAe. The alliance, which is likely lysts believe an eventual deal

to be extended to other areas according to secret memoranda agreed between the two companies, could also lead to close joint ventures or even a merger between Lockheed and a future European aerospace company in the long term. Mr John Weston, BAe's joint managing director, this week Editorial Comment, Page 11 called for Europe to form a Nigeria's oil riddle, Page 12 single aerospace and defence

company. Other senior BAe with Airbus remains a possiexecutives believe that, if such BAe now joins Lockheed and a company was set up, it could eventually form a partnership its existing JSF partner, North-

design for the light fighter in rival to Boeing in both defence competition with Boeing. Lockheed, which is active Development and trials will continue for the next four years, with the Pentagon making a final selection on which agreement between Boeing

Whichever group wins is and McDonnell Douglas to likely to dominate the world fighter business in the ate an aerospace leviathan early decades of the 21st with a turnover of about \$48bn century.

rop Grumman, in producing a

The deal was only struck in the early hours of yesterday morning after months of negotiations between BAe and the two US companies. Boeing had

> Continued on Page 12 A billion-dollar gamble, Page 6

#### Europe looks to Jospin for sign on Emu policy

By David Buchan in Paris

France's European Union partners and financial markets will today look to Mr Lionel Jospin, Socialist prime minister, for reassurance that Paris is still committed to early entry into economic and monetary union.

Mr Jospin will set out his government's programme in an hour-long address to the National Assembly, in the wake of the Amsterdam sum-mit of EU leaders.

The summit agreed to French demands that employment receives a higher priority in the economic manage ment of Emu.

But Mr Jospin's fellow leaders were unsettled by comments from Mr Pierre Moscovici, French European affairs minister, who indicated there was nothing automatic about the country's move towards Emu. He suggested the deci-sion would turn on the findings of a forthcoming audit of French public finances, due to be completed by mid-July.

Mr Jospin's aides disavowed Mr Moscovici's comments, but preliminary French treasury reports show the country is overshooting deficit targets which potential Emu members have to meet this year.

In his "general policy" statement to the National Assembly, Mr Jospin is expected to announce measures to put unemployed young people on the public payroll, to make a small reduction in value added tax, and to raise the national minimum wage on July 1.

France's European partners will be looking to Mr Jospin for reassurance that Paris remains serious about the fiscal restraint required to qualify for the euro, the proposed single currency.

The Socialist-led majority won power promising not to take extra austerity measures, even if the 1997 deficit looked like exceeding the target of

Continued on Page 12 Summit reports, Page 2 Editorial Comment, Page 11

### According to a study by the De Beers' diamond sales a record despite setbacks

By Kenneth Gooding

The diamond cartel organised by De Beers of South Africa yesterday reported record firsthalf sales even though exports from Russia, one of the biggest producers, came to a virtual halt because of bureaucratic the west, he said.

Congo (formerly Zaire), dropped because of political turmoil in those countries. De Beers' London based Cantral Selling Organisation said

first-half sales of rough, or uncut, gem diamonds reached \$2.88bn, nearly 5 per cent record of \$2.748bn in the same months last year. Mr Tim Capon, a De Beers'

with Russia in December but still intended to buy from that country. In the half-year, the CSO committed to buy five consignments of diamonds but, because Russia had not yet issued export licences, it had not been able to bring them to

The shortfall - he refused to Supplies from two other sub- give the value - had been stantial producers, Angola and made up by extra South African output. This solution had of both last year and 1995 when bureaucratic mix-ups delayed exports from Russia. "That balanced out later in the year when Russian exports came out. It is open to queshigher than the previous tion whether that will happen this year," Mr Capon said.

ting a new contract with Rusdirector, said: "The diamond sia started more than 18 market has not shot up. It is months ago but political prob- sales to top \$5bn for the first simply that we are taking a lems standing in the way of time this year, compared with agreement still remained to be \$4.8bn in 1996.

The CSO ended its contract solved, he said. The underlying federal government did not believe it was receiving its fair share of diamond revenue.

sia to rejoin the cartel "on the right terms", he said. But increasing output from Botswana, the biggest producer in value terms, and at other mines, as well as the fact that Russia's diamond stocks were dwindling, meant "we are betalso been used in the first half ter able to supply the market even without Russia". Retail diamond jewellery

sales this year were expected to remain flat. The US, the biggest market with 33 per cent of total sales, continued to grow at 7 per cent a year. Conditions in Japan, second-biggest mar Negotiations aimed at set- ket with 28 per cent, remained difficult.

But analysts expect CSO

## CONTENTS

	inti. Cap Mids 23	Inst. Bond Service 25 Managed Funds 25
8 8	Marteta Commodiles 22 FTSE Actuaries 29 FT/SP-A Wid Indices 32	

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#### **NEWS:** EUROPE

The achievements of the Amsterdam summit cannot mask the divisions that remain

## Enlargement may test EU's treaty

laboriously conceived, looks solid enough to permit the process of enlargement into

central and eastern Europe. Yet if that is the good news, less welcome is the realisation that the inconclusive wrangle at this week's towards its conclusion in EU summit over institutional reform showed just how determined club members are to protect their existing rights.

The European Commission confirmed yesterday it A close look at the results would publish on July 16 its of the IGC points to a soberlong-awaited opinions on which of 10 former Communist countries are ready to 1992 Maastricht treaty, join Cyprus in opening accession negotiations early next year.

Simultaneously, the Commission will unveil proposals for overhauling the Common Agricultural Policy and regional aid to help absorb the impact of poorer, farmare expected as well.

Yet if tempers are lost over reform of the EU's insti- talked up new clauses on tutions, notably how to re- animal welfare; the Belgians weight the votes of memberstates in the decision-taking Council of Ministers, then sparks will surely fly when new language on remote EU leaders turn to budget-regions; and everyone

By Anthony Robinson,

Central Europeans are

getting used to the dilatory

ways of western institutions.

Failure of the Amsterdam

summit to prepare for

enlargement to the east, or

even indicate which of the 10

aspirant members would

start entry negotiations.

came as a disappointment

is that the shortcomings of

the summit will not slow the

start of enlargement. The

planned six months after the

conclusion of the inter-gov-

Laszlo Kovacs, Hungary's

He saw possible advantage

in the 15 existing members'

inability to decide on voting

and other reforms. "We do

not mind if they wait for us

to join before deciding on

we could have a say in

Hungary, with Poland and

the Czech republic, has been

chosen for the first wave of

Nato expansion and expects

to join the EU in the same

company. "We want acces-

sion talks to begin with

those most qualified; we do

not want the convoy effect,

where the speed of entry is

Mr Włodzimierz Cimoszew-

icz, the Polish premier, also

foreign minister, said.

talks will start as originally

The most important thing

rather than a surprise.

East Europe editor

**New members** 

wait in line

for EU entry

he European Union's ary matters, alterations in Treaty of Amsterdam, the CAP and geopolitical a modest product questions such as which eastern European countries head the applicants' queue.

These dilemmas could be put off as long as EU leaders were wrapped up in the Maastricht treaty review conference, which ambled Amsterdam. Yet as one British official put it, "The EU has spent too much time engaged in theological navelgazing. We believe it is time to change gear.

ing conclusion. After the traumatic experience of the which barely scraped through ratification in Denmark, France, Germany and the UK, countries are much more mistrustful about ceding national sovereignty and much more attentive to

public opinion. The result is that the intensive economies joining Amsterdam treaty reads the Union. Separate ideas on more like a party political reforming the EU's budget manifesto than a hallowed

constitutional document. The Austrians and British praised a declaration on local sports teams: the French and Spanish inserted

welcomed the end of the IGC

and confirmation that

enlargement talks were to start in six months. "We are

convinced that Poland will

be in the first group of coun-

Poland, with 39m people,

is the largest applicant.

Opinion polls show 80 per

cent support for Nato and

EU membership. But Mr

Cimoszewicz warned local

pro-EU organisations negoti-

ations "would reveal the dif-

ferences in interests between

Much still had to be done

to adapt Poland's laws, insti-

tutions, administrative

methods and the economy to

yet had a serious detailed

debate about the duties we

will take on with EU mem-

Polish EU experts are pre-

pared for tough negotiations.

They would prefer compre-

hensive talks dragging on to

failed to spell out rights and

obligations in areas such as

agriculture, access to struc-

tural funds, and environ-

Mr Pavel Telicka of the

Czech foreign ministry said

Prague saw the summit's

outcome as "the maximum

feasible," given modest expectations. "The text is

quite a good one. It talks

about the first enlargement,

eral waves, and I am sure we

The EU's lack of enthusi-

will be in the first."

mental and social issues.

Poland and the EU".

bership," he added.

ernmental conference." Mr EU standards. "We have not

these matters because then 2002 rather than talks which

determined by the pace of about the first enlargement, the slowest," Mr Kovacs implying there will be sev-

tries", he declared.

#### EU TREATY OF AMSTERDAM

 Zone of freedom, security and justice to come into force for EU citizens within five years of treaty's ratification Member-states which violate basic freedoms face suspension of voting rights in Council of Ministers • Freedom of movement for everyone in EU, but UK and

Ireland retain border controls Unanimity required for at least five years in decisions on immigration, visa policy and political asylum

 Council's secretary-general, rather than high-ranking politician, to represent EU foreign policy to outside world • Any state which believes its vital interests are at stake can block majority votes on implementing foreign policy

• Possible future inclusion of Western European Union into EU, but Nato remains central to Europe's defence

Agreement in principle that Commission should have only 20 members after enlargement, with one member per

• No agreement on how to reweight votes of me states in Council. To be decided nearer to enlargement Majority vote will enable some RU states to move together without waiting for others, but only in limited policy areas

**EU CALENDAR** 

Accession

EL PERSON

EU procedoro

6698<u>-</u>

Common Agricultural Policy and

EU leaders decide

e de la composition

**1993** 

ends

from the first round of Nato

expansion because of the

autocratic ways of Mr Vladi-

mir Meciar, its prime minis-

ter, is also likely to remain

excluded from the first EU

Additional reporting by Ana-

tol Lieven in Budapest, Vin-

cent Boland in Prague and

Christopher Bobinski in War-

entry round.

praised a new employment dogged defenders of national chapter, which is long on and regional rights at the exhortation but acknowlthat national governments rather than Brussels should take the ini-

The turnaround in the German position is striking. Five years ago, Chancellor Kohl, champion of unification, agreed at Maastricht to trade in the D-Mark for the single currency and a vague promise of "political union". In Amsterdam, however, Mr Kohl was one of the most

UKS**ANDIN** EU

**1993** 

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asm for enlargement and its

obsession with the Emu proj-

ect is most disappointing to

countries such as Slovenia

and Estonia, which are close

to qualifying for accession

on economic grounds. It also

implies a long wait for oth-

ers such as Bulgaria, Romania and the other two

Slovakia, already excluded

Baltic states.

Creation of central bank running single monitory distincy. Irrevocable locking of exchange rates and foling of parities

expense of new EU-wide powers. He blocked the extension of majority voting in industrial policy, social policy, transfer of pension and social security rights, recognition of professional diplomas, and several other provisions covering the free movement of people and ser-

The Chancellor also insisted that the switchover to majority voting in asylum, visa and immigration

should be subject to unanimity when it comes up for review in five years' time, much to the dismay of the European Commissi

German officials said Mr Kohl's hard line reflected pressure from the Länder, a view supported by his lone but ultimately successful campaign to insert a treaty declaration giving the powerful Landesbanks a measure of protection from EUcompetition rules.

"Kohl is too weak in Gerany," concluded one senior EU diplomat, "but he is too strong in Europe."

The summit showed the Chancellor is pinning all his hopes on the single currency, the euro. For him, monetary union on January 1, 1999 - not the more elusive concept of political union – is now the chief tool for embedding Germany in a united, democratic

Emp shoe ins such as the Belgians, Dutch and Luxembourgers are delighted; Emu aspirants such as the Spanish, Portuguese and Irish are relieved. But the Chancellor's words leave him ever more exposed inside Germany, where left-wing and right-wing opponents are calling loudly for the Emu entry criteria to take prece-

dence over the timetable

Moreover, Mr Kohl's commitment to Emu sits oddly with the views of the new left-wing government in Paris, which seems in two minds about the project if the price is more public spending cuts and fiscal aus-

But the Socialists' threat to block approval of the German-inspired stability pact, designed to enforce budgetary discipline in the future euro zone, surely signals trouble to come. The summit compromise leaving the pact intact, while offering Paris words on growth and employment, cannot hide the divisions over macroeconomic policy between Bonn

The other wild card in the relationship is enlargement. Mr Kohl has made clear he favours three candidates only in the first wave of new entrants: the Czech Republic, Hungary and Poland. Others, including France, are wary of anything that smacks of Grossdeutschland. Hence the second message from Amsterdam: no enlargement without mone-

tary union. Mr Kohl may not like it, nor will Mr Tony Blair, the new Labour prime minister.

But that is how it is.

Lionel Barber

## MEPs' more powerful say

By Emma Tucker in Brussels

The European Parliament emerged as one of the few winners at this week's Amsterdam summit as the list of policy areas over which it has some legislative power was extended.

Under the new treaty,

the legislation is thrown out.

transparency of EU institu-

However, moves to extend the parliament's remit to the freedom of movement and social security for immigrant workers were defeated. The parliament will also contimpe to be excluded - in all but a consultative way from legislation concerning the structural funds.

The parliament has long

"It is difficult to predict, but I have always said that while you have a parliament with little responsibility you can't expect it to act responsibly," said Mr Zygmunt Tyskiewicz, secretary-general of Unice, the employers' organ-

While increasing the

# **Summit grants**

"The parliament was the winner," declared Mr Elmar Brok, the German Christian Democrat MEP, as negotiations to revise the EU's constitution drew to a close early on Wednesday morn-

more legislation will be adopted according to the cointroduced in the Maastricht the parliament the right to amend or reject a legislative proposal put forward by the European Commission. If the council rejects the parliament's amendments, the Commission has to try to broker a compromise. If the conciliation does not work,

So far, the powers have been limited to single market harmonisation legislation, research and development, some environmental areas and proposals dealing with the free movement of workers.

But under the new Amsterdam treaty, co-decision will be extended to other domains including social policy, transport, combating fraud against the EU budget, statistics, public

health, and measures dealing with the openness and

been pushing for an increase in its powers, but the deal struck in Amsterdam could prompt misgivings in some industrial circles. Industry decision procedure. First has criticised the 659-seat assembly for using the co-Treaty, co-decision grants decision procedure to enhance its own status at the expense of the substance of legislation.

isation.

power of the European Parliament, the EU's leaders also wrested some back for national parliaments, A new protocol will oblige the Commission to submit proposals "promptly" to national legislatures, and the Council to wait six weeks before considexing them, so national parliaments can make their views known.

## EUROPEAN NEWS DIGEST

## Reveal past, Poles told

Mr Aleksander Kwasniewski, the Polish president, has defied his former communist supporters in the Left Democratic Alliance (SLD) and signed a law forcing parliamentary candidates as well as prospective senior administrative officials to admit publicly to former links with the communist security services. At the same time Mr Kwasniewski has set September 21 as the date for Poland's parliamentary elections, when the Solidarity trade union-led opposition will seek to wrest power from the SLD and the Polish Peasant party (PSL), its junior coalition partner.

The measure closes Poland's long and bitter debate on how far to go in rooting out former internal security operatives. The SLD has argued that present security operations would be jeopardised if such secret links were revealed. In signing the bill, Mr Kwasniewski ignored appeals from Mr Wlodzimierz Cimoszewicz, his own prime Christopher Bobinski, Warsaw

#### Compensation for Airtel

A negotiated settlement to compensate Airtel, Spain's second mobile telecommunications operator, has ended one of the Madrid government's longest deregulatory battles with the European Commission. The dispute dates from Airtel's Pta85bn (\$586m) payment to the government in December 1994 to obtain the cellular licence: Pelefónica, the national telecoms operator which was at the time controlled by the government, was not charged a fee when it set up a rival mobile network.

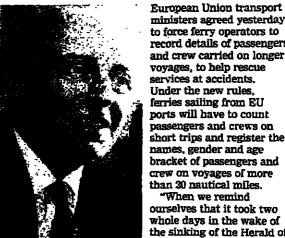
The deal secured by the government and the Commission and accepted by Airtel and Telefonica yesterday, repays Airtel in kind rather than in cash. Airtel, whose shareholders include British Telecommunications and Airtouch Communications of the US, is awarded a free PCN licence, a reduced connection fee, more frequencies for its cellular network and an extension of its licence in the fast expanding Tom Burns, Madrid iomestic mobile phone market.

#### Yugoslav debt talks to resume

Mr Danko Djunic, the new Yugoslav deputy prime minister, will make a fresh effort to reach a debt agreement with London Club commercial bank creditors next week after a break of more than six months. "We go to London with concrete proposals," he told Reuters.
Yugoslavia, consisting of Serbia and Montenegro,
inherited an estimated \$2bn in commercial debt after the break-up of the former Yugoslav federation in 1991 and badly needs new access to international capital markets. The talks are due to start on June 23.

Other important issues include Belgrade's readiness to share former Yugoslavia's assets with the other successor republics, and IMF membership. Anthony Robinson, London, and Reuter, Belgrade

#### Ferries must count heads



ministers agreed yesterday to force ferry operators to record details of passengers and crew carried on longer voyages, to help rescue services at accidents. Under the new rules, ferries sailing from EU ports will have to count engers and crews on short trips and register the names, gender and age bracket of passengers crew on voyages of more than 20 nautical miles. "When we remind ourselves that it took two

whole days in the wake of the sinking of the Herald of Free Enterprise to discover

Hut stee

how many people had been lost and who they were, we can only begin to imagine the appalling experience of families," Mr Neil Kinnock (above), commissioner for transport, said, referring to the 1987 ferry disaster outside the Belgian port of Zeebrugge.

Mr Kinnock said the new rules would require registration of passengers and crew on all cross-Channel ferry routes. The measures, which still require final European parliamentary approval, are set to come into force on the last day of 1999, 18 months later than originally proposed. Reuter, Luxembouro

#### Brussels moves on BSE

The European Commission yesterday reintroduced proposals for materials at risk of carrying BSE, or "mad cow" disease, to be removed not only from cattle carcases but from sheep and goats as well. Mr Franz Fischler. agriculture commissioner, tried to get the measures adopted last year after scientific experiments suggested that BSE, thought to have originated as scraple in sheep. could be transmitted back to other ruminants. EU veterinary experts and many EU states rejected the

neasures last year as unnecessary. But Mr Fischler, and Mrs Emma Bonino, the commissioner recently made responsible for consumer protection, believe they have stronger evidence this year that the new controls are vital to prevent the spread of BSE. They want the head, including the brain and eyes, and spinal cord of cattle. sheep and goats over 12 months old, along with the spleen of sheep and goats, to be excluded from the human and animal food chain. Veterinary experts will hold preliminary discussions on

the new proposals tomorrow and EU agriculture ministers may discuss them next week, but a final decision is not expected until the autumn. Neil Buckley, Brussels

ECONOMIC WATCH

### Unemployment stable

Seasonally adjusted

unemployment in the EU

remained stable in April

compared with March at

10.8 per cent, Eurostat

reported yesterday. The

rate has been unchanged

for several months and is

only 0.1 points below that

Rate (%), April 1997 seasonally adjusted a arkege

were unemployed in the EU in April.

of April 1996. However, compared with a year ago. joblessness among the under-25s has fallen to 20.9 per cent from 22.0 per cent. In recent months unemployment has fallen in in the UK (to 7.0 per "Jaruary Square Cent), ireland (10.9 per

cent), the Netherlands (5.5 per cent) and Spain (20.9 per cent). But there were increases in Finland (to 15.9 per cent) and Sweden (10.8 per cent). Eurostat estimates that a total of 18.1m people

■ Sweden posted a current account surplus of SKr5.1bn (\$880m) in April compared to a revised March surplus of

## Jospin caught in minimum wage trap Low-paid workers provide an early challenge for France's new government, writes David Owen

July 1 is always a red letter salaire minimum interprofesday for France's lowest paid workers. It is when the annual pay rise accorded by the government to the 2.2m employees receiving the

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sionnel de croissance (Smlc), the country's grandly entitled minimum wage, becomes effective. which the annual increment

is fixed stands to be scrutinised unusually closely. This is because it may provide an early pointer to the approach Mr Lionel Jospin's new Socialist-led government intends to adopt on industrial relations. Any increase will have

for the country's public deficit, since companies paying employees up to 1.33 times the Smic are currently entitled to an exemption from some social security charges. The more the minimum wage is increased, the more additional employees will fall into this bracket and the greater will be the government's loss of revenues from

the exemptions. the government to neutralise this effect by tightening the eligibility criteria. In the meantime, there is a risk that a sizeable increase in the Smic will make it harder most moderate of the main for the new government to union leaders, has called for

to qualify for the European single currency. Markets and employers

will also have their concerns This year, the level at heightened if the rise is large. They fear a period of indulgence towards the left's trade union supporters and are warning that unemployment - already at a post-war record 12.8 per cent - could be driven still higher.

Representatives of those most directly affected by the coming decision have been potentially important effects staking out their positions ever since Mr Jospin's remarkable election victory on June 1.

The pro-Communist CGT trade union, headed by Mr Louis Viannet, says it wants the gross monthly wage lifted by a massive 32.7 per cent from FFr6,406 (\$1,097.5) for 169 hours to FFr8.500. We consider it is very difficult to live on less than that," the CGT says. How-Some economists expect ever, it is widely thought the union would in fact be content with a 10 per cent

increase Ms Nicole Notat, secretary general of the CFDT and the to restrict France's public defi- an increase of at least 4 per cit to 3 per cent of gross cent. But she also wants the ing social charges, must not per cent was the rise those with 500 or more.

domestic product, and hence purchasing power of those increase in real terms". on the minimum wage to be lifted further by gradually removing their obligation to pay health insurance contributions. She suggests an equivalent

sum could be raised instead by increasing the contribution sociale généralisée are subject to international Morgan Stanley, says his (CSG), a welfare tax on all taxpayers created by the Socialists in 1990 to shift some of the burden of financing France's generous Smic", he said. social security system from the workforce.

On the employers' side. the clothing industry - one of the most affected by the minimum wage since about one in three of the sector's to come under strong presemployees are paid it - has already called for compensation measures. According to the Union Française des Industries de l'Habillement. a rise in the Smic without such compensation would have "disastrous effects to terms of loss of jobs and

Mr Jean Gandois, president of the Patronat employers' federation, said in a recent statement that. If French businesses were not be discouraged, the "global cost of work, includ-

company failures".

He also called for any increase in the Smic above inflation - the annual rise in consumer prices is currently just 0.9 per cent - to be compensated. "Today French companies in all areas of manufacturing industry that competition and in many service industries, including tourism, cannot with-stand...a big increase in the The government, which is

expected to fix the level of the increase at next Wednesday's cabinet meeting, has so far given no indication of the figure. But it is expected sure from its Communist coalition partner, which campaigned for a FFr1,000 increase in the gross monthly rate. "If it is not FFr1,000, we

would like an increase of about FFr500," the Communist party says. It considers a rise of that magnitude "a demand that is becoming irresistible for a government of the left".

Observers largely believe that an inflation-busting rise, of 4 per cent or more, is likely - not least because 4 and nine employees than in

centre-right government in "Politically it may be a bit

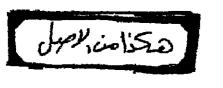
delicate to raise it by less", says Mr Jean-François Mercier, an economist with Salomon Brothers. Mr Eric Chaney, senior economist with guess is for an increase of 5 per cent - a level that would have "a negative effect on the job market for unskilled workers". An increase of less than 4

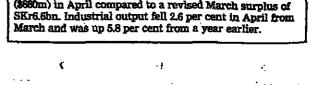
still be enough to alarm the markets. But it would be widely interpreted in France as a sign Mr Jospin was prepared to stand up to the unions - and his coalition Another problem noted by economists is that the com-

per cent, meanwhile, might

panies with the highest proportion of employees receiving the Smic tend to be the sort of small enterprises which can least afford to stump up for a big

Labour ministry statistics show that the proportion of employees on the minimum wage is 13 times higher in companies with between one





ing which debt talks to be

citizan arasi count hak

I remille ment sub-

# Turkish premier resigns By Kelly Couturier in Ankara encouraging a subversive Islamic movement that endangers Turkey's first movement that endangers Turkey's the small right-wing Grand University and the scheme was party, in support of a Welfare-Treatment of the small right-wing Grand University and the scheme was provided in turn, said he we make the scheme was provided a new province a new province a new province a new province and the scheme was provinced and the scheme

ruling coalition afloat amid a concerted campaign by the military-led secular establishment to sink it.

Mr Erbakan's resignation, tendered motion a plan by the government partners under which Mrs Tansu Çiller, leader of the conservative secular True Path party, will take over the premiership, reconstitute the coalition and work toward elections next autumn.

"After reviewing the situation, we have decided to take this step in order to continue our coalition more successfully," Mr Erbakan declared after resigning. The plan, which faces several obstacles, was devised by the faltering year-old coalition to ease mounting pressure from the military, which

encouraging a subversive Islamic three parties, Welfare, True Path and movement that endangers Turkey's the small right-wing Grand Unity

not merely swap jobs. In its harshest Mr Erbakan said. warning yet to the government, milito President Suleyman Demirel, sets in tary officials said last week that the pared to use force if necessary to thwarting radical Islamic activity. counter radical Islam.

Both President Demirel and parliaplan, and neither is certain to do so. Mr Demirel, formally charged with appointing a prime minister, has even ninted he may not name Mrs Ciller.

Mrs Ciller's True Path has suffered a wave of defections amid the crisis with the military, leaving it with only 116 seats. Mr Erbakan said he had handed accuses Mr Erbakan's Welfare party of to the president a declaration signed by

party, in support of a Welfare-True

Mr Demirel, in turn, said he would which has made it clear it wants Mr do his best to appoint a new prime Erbakan and Mrs Ciller to step down, minister-designate as soon as possible,

The crisis leading to Mr Erbakan's resignation began last March, when the army, which considers itself the guard-military-dominated National Security ian of Turkish secularism, was pre- Council issued directives aimed at

Mr Erbakan, who had already angered the military by pushing an ment must approve the Ciller-Erbakan Islamic-oriented agenda and making overtures to Iran and Libya, resisted implementing the measures, many of which would alienate him from his

> His defiance of the military increase tension and fuelled speculation that the armed forces, which have assumed power three times since 1960, were pre-



Albanian Socialist party leader Fatos Nano speaks to supporters at a rally in the south-western town of Patos. Elections will be held in Albania on June 29

## Foreign demand lifts Germany

The German economy resumed its growth trend early in 1997, but it is too early to say whether domestic demand is developing strongly enough to match demand from abroad, the Bundesbank said yesterday, Andrew Fisher reports from Frankfurt. So far, it said in its mouthly report, foreign

support for economic recovproduct competitiveness and rationalisation efforts, as well as by the decline in the D-Mark.

The central bank said gross domestic product had risen half a percentage point in the first quarter against

ery. German exporters had dar-adjusted basis. This been helped by their own appeared modest but had to seen against the impact of the cold winter on the building industry. Manufacturing and services activity picked up sharply.

New domestic orders showed a marked improvement in March and April after a slow start. But it was

economic impulses were developing as strongly as those on the export side. The bank repeated its call to politicians for greater efforts to deal with high taxes, social security costs, also said the drive to control public sector spending must

## Italian pension cut talks begin

By Robert Graham in Rome

Italy's centre-left governcrucial round of talks with trade unions and employers costly state-run pensions

tions amounted to a formal it faces strong opposition duced L15,000hm (\$8.9bn) in the unions.

statement of the govern- from the powerful unions, as ment's position, while establishing an agenda for the ment yesterday initiated a negotiations, which could ment in parliament. drag on into the autumn. The government is commiton cuts in the country's ted to curbing the rising three-year macroeconomic trend in pensions outlays to hold the public sector deficit

left supporting the govern-

the government unveiled a The talks involving lead-down to the targets agreed GDP in 1998. This was prediers of 31 different organisa-in the Maastricht treaty. But cated on a budget that pro-

well as from elements on the in new receipts. The government yesterday indicated it wanted to save 1.6.000bn-At the end of last month L7,000bn in pension reform. Matters have since been complicated by the victory of programme to cut the bud- the left in France, a develop-

## Cabinet backs overhaul of pension system

By Raiph Atkins in Bonn

Germany's cabinet pushed structural economic reform ernment spending cuts and forward yesterday by approving plans to overhaul the state pension system and make 1.8m civil servants contribute for the first time to their retirement benefits.

The changes, which are less ambitious than some members of Chancellor Helmut Kohl's centre-right tackle problems created by high non-wage labour costs. a rapidly againg population and acute pressure on federal finances

The federal labour minise earnings to 64 per cent by 2030. But contributions employers would remain forecast 23 per cent if the system were unchanged.

However a cabinet deciextra DM15bn (\$8.6bn) in annual costs, which will fall changes, has been postponed until agreement is reached on how to reform the tax

The tax talks have become embroiled in frantic negotiations over filling gaps of budgets for 1997 and 1998.

day continued work on meatreaty entry criteria for the worth DM66bn by 2015.

single European currency through an accelerated privatisation programme, govpossibly higher borrowing.

Mr Theo Waigel, finance minister, will meet Mr Hans Tietmeyer, Bundesbank president, today to discuss plans to revalue gold and currency reserves and remit the proceeds to a government account in Bonn.

The cabinet has a good coalition wanted, seek to chance of securing early approval for its pension plans because they do not need support from the Bundesrat, the second chamber of parliament, which is dominated by the opposition try said pension levels would Social Democratic party. The fall from 70 per cent of aver- SPD is against the curbs on pension benefits and sig nalled its intention to focus paid by employees and on the issue in federal elections expected in autumn

As well as controlling contributions and benefits levels, the pension reforms include measures to encoursion on how to finance an age corporate pension schemes and tighten eligibiloff because they are incapable of work. Provisions for those who take time off work to bring up children

would be improved. Kanther, interior minister, announced cabinet-approved plans to tackle generous DM20bn-DM30bn in federal civil servants' benefits. From 2001, they would receive Coalition leaders yester- wage increases 0.2 percentpublic sector workers. The shortfalls – and ensure Ger- difference would finance a many meets Maastricht pension fund expected to be

# ne answer

# Vnatsine question

## **Nova Hut steel** sale faltering

By Vincent Boland in Prague

steel company has fallen victim to the country's eco-nomic and currency troubles and is almost certain to be

place in the next few weeks. But lack of demand for the issue to think again about how to proceed.

a feasible way to go forward have to be achieved immediin view of current market ately. conditions. For an equity Republic, the risks are viewed for the time being as too high," said Ms Petra Wendelova, vice president of Credit Suisse First Boston in Prague, which was bandling the sale with Komercni

the stake are now being considered with the Czech state holding company, which is Nova Hut's majority owner. Reducing state ownership achieved, is a precondition city of Ostrava.

for participation by the International Finance Corpo-A planned international ration in a \$250m loan to the offering of a stake in a Czech company to build a new mini-mili

The mill and the equity sale are the centrepieces of a five-year, \$650m modernisa tion drive at Nova Hut. The The sale of 18 per cent of mill will allow it to expand Nova Hut to foreign equity production of sheet metal investors was due to take from 700,000 tons to Im tons

Mr Vikas Thapar, head o Czech equities has forced the European operations for the investment banks handling IFC, the private-sector arm of the World Bank, said a reduction of the state's stake We do not believe this is was essential but did not

offering from the Czech a clear commitment to privatise - which there is in the case of Nova Hut," he

comment on what options were being considered to sell the stake, but she did not rule out a sale to domestic Other options for selling investors or to a strategic

There could also be a revival of proposals to merge Nova Hut with Vitkovice, another steel company. They below 50 per cent, which the are located just 5km from offering would have each other in the eastern

Let's talk. BT's proposed merger with MCI will create Concert plc, the first communications company for the world. And the most positive,

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## Indian amnesty for tax evaders Hosokawa leaves

By Khozem Merchant in New Delhi

The Indian tax authorities yesterday unveiled an ambitious amnesty for tax evad- boost revenues from the parers in a move designed to raise revenue from the black economy.

The move was welcomed by businessmen, but critics closure Income Scheme 97 warned that while the initiative was attractive it could flop because it was not backed by sufficient penalties for tax dodgers.

a further development in the sing their black assets", and tax restructuring announced companies will pay 35 per by Mr P. Chidambaram, cent. Declared assets would finance minister, in his then be subject to normal widely applauded budget in taxes such as the annual

worsening problems of wealth distri-

bution unless the government moves

to restore momentum to its deregu-

lation programme, the World Bank

In its 1997 report, "Indonesia: Sustaining High Growth with Equity",

the bank said that Indonesia's eco-

nomic performance had been strong,

year which saw an unprecedented

number of riots and unrest across

the archipelago, sparked in many

A slowdown in the deregulation

programme meant there was a dan-

ger of per capita income increasing

by about 20 per cent less than expec-

ted by the year 2005, with economic

growth slipping to 5 per cent per

annum from 7.8 per cent last year.

Lower gross domestic product

would mean "significantly fewer

resources to address social issues,"

but would also be disappointing

because Indonesia could become one

cases by a perceived growth in disparity between the country's rich

and poor.

but "significant risks" remained. The bank's warning followed a

March. Personal taxes were cut to 30 per cent, the lowest level ever, and corporate taxes reduced in an attempt to widen the tax base and allel economy, which is equal to 7-10 per cent of gross domestic product.

Under the Voluntary Dis-(VDIS), which will run from July I for six months, individuals who disclose undeclared assets such as homes, jewellery and cash will incur The announcement marks a 30 per cent tax for "legitim-

Bank urges Jakarta

ued to stifle growth, the bank Indonesia risks a significant argued with lack of transparency

slowdown in economic growth and and competition hurting perfor-

mance in sectors such as infrastruc-

ture and natural resource develop-

ment. Strong deregulation that had

supported rapid, labour-based

growth had slowed and even

reversed in some areas, with little

progress made on the unfinished

Meanwhile the country's over-

crowded banking sector remained

"relatively weak" by international

standards and its exposure to the

property sector was "again on the

Indonesia's financial institutions

needed strengthening because there was continuing concern that the

financial system would not be able

absorber" in the event of some

macro-economic disruption, the

This had taken on added urgency

because Indonesia's current account

deficit was "likely to worsen further

next year", partly because of a slow-

down in non-oil export growth. The

risk was "magnified by Indonesia's

large external debt" and the increas-

"act as an adequate shock

deregulation agenda.

to avoid slowdown

No penalty, surcharge or interest will be imposed for the period of concealment and respondents would be immune from legal proceed-

This could have far-reaching political implications if individuals suspected of foreign exchange violations escape further inquiry after declaring their black assets. "People under investigation under the Foreign Exchange Regulation Act could avail themselves of VDIS," said Mr A.K. Batabyal of the Central Board of Direct Taxes. Some of India's top politi-

cians and corporate figures

are being investigated after

eign exchange and tax scandals and could, theoretically, escape censure. They include Mr Manu Chhabria, chairman of the Calcutta-based trading group Shaw Wallace.

However, Mr Ravi Kant, tax board chairman, said that those already charged or detained for exchange violations would be not be entitled to use the VDIS provisions. Several senior officials of ITC tobacco group in Calcutta, including its former chairman, Mr K.L. Chugh, have been detained under forex investigations.

Mr Kant indicated tax offitigations for the period of cent.

a wave of high-profile for- the six-month amnesty. "If they are going to stop investigating, then the ramifications could be widespread," said Mr Mahesh Vyas, executive director of the Centre for Monitoring Indian Economy, an independent think tank in Bombay.

Mr Kant said the current low tax environment was a compelling reason for people to come clean.

He declined to say how much the tax board was looking to raise but said the amount should exceed the sum raised in a similar exercise in 1985, when the percials would curb their inves- sonal tax rate was 60 per

## **New Frontier party**

By William Dawkins in Tokyo

Mr Morihiro Hosokawa, the former Japanese prime minister who led the first non-Liberal Democratic party government in almost four decades, yesterday resigned from Japan's main opposition group.

His departure is a serious blow to the depleted New Frontier party, an advocate of economic deregulation. It could hasten the long rumoured resignation of 20 Hosokawa followers, known to be unhappy with the NFP leader, Mr Ichiro Ozawa.

"Now there is no reason for them to stick together," sald a political analyst yes-terday. Mr Hosokawa's followers are likely to join the second largest opposition group, the liberal-minded Democratic party, which would then become a strong rival to the NFP as the focus of the Japanese opposition. Mr Hosokawa, prime minister for eight months until April 1994, told colleagues he could work better for reform as an independent. But the real reason for his move is disagreement with Mr Ozawa's plans to seek case-bycase parliamentary co-opera-

Hosokawa: popular PM

This brings to 31 the number of members of the lower house of parliament - the main chamber - to have left the NFP, mainly because of Ozawa, since the party was formed in late 1994. It now has 139 seats in the 500-seat lower house, against the LDP's 245. Mr Hosokawa is one of the

opposition's best known members and was Japan's on record before he stepped advocate of deregulation.

down from the leadership because of allegations of personal financial impropriety.

Other high-profile departures from the NFP include Mr Tsutomu Hata, another former prime minister, who left to form his own group. the Sun party, last December, also after a disagreement with Mr Ozawa. Now the NFP now has just one former leader in its ranks. the uncharismatic Mr Toshiki Kaifu.

The NFP remains the biggest new Japanese political party since the LDP's creation in 1955. It was formed from an alliance of parties grouped around a core of disillusioned former LDP men led by Mr Ozawa, whose defection from the LDP four years ago precipitated its

Initially, the NFP created much excitement in Japan and abroad with its pledges to break the power of LDP disagreements with Mr factions and make government more responsive to the aspirations of the electorate. But since then, the NFP's popularity has declined. It has found it hard to differentiate itself from the ruling party, which has occupied the opposition's territory by most popular prime minister becoming an enthusiastic

# **2-wheelers**

Mr Lee Iacocca, the legendary businessman who twice pulled Chrysler, the US car glant, back from the brink of bankruptcy, is returning to the transport business with a venture to develop and market electric motorcycles and bicycles.

Iacocca, who left Chrysler more than four years ago, optimistically asserted that anything would be easier than turning around the once-failing car maker, but industry observers cautiously suggested he had taken on a challenge that could prove insurmountable even for someone with his

Mr Iacocca visited Taiwan this week to forge alliances with local manufacturers to promote his vision of the future of motorised transport, saying he chose Taiwan because it was the most natural place to develop and commercialise

edge of a revolution," he

ching, 83-year-old founder mosa Plastics group, Taiwan's biggest private industrial congiomerate. Mr efforts to develop a commercycle through the government-backed Asia Pacific

endeavours had failed. In March Mr Iacocca

On Tuesday Mr Iacocca initialled a joint venture with Kwang Yang Motor, Taiwan's biggest scootercabinet position even after | maker, Taipei-based Turn Luckily Technology and Colorado-based Unique Mobility. EV Global will handle distribution and marketing investment promotion and in | of the light electric vehicles

He also signed a joint venture agreement with Giant, Taiwan's biggest bicycle active role in the transition by working with his maker, to manufacture electric bikes. Both Kwang Yang and Giant have proto-

Taiwanese enthusiasm for



By Laura Tyson in Taipei

record.

and chairman of the For-Wang is spearheading cially viable electric motor-

formed a company called EV Global Motors to sell light electric vehicles - twowheeled, three-wheeled and scooters - first in North America and later in Europe and Asia.

produced by the venture.

type battery-driven vehicles.



The 72-year-old Mr

light electric vehicles. "If the batteries are developed enough, we can probably go to small commuter cars, but I think that is a long way off. Bicycles and scooters are here now and I think this is the leading

He met Mr Wang Yung-

The former Chrysler chief readily conceded that battery technology was a barrier to the commercial exploitation of electric vehicles, and some observers were sceptical that Mr Iacocca and Taiwan could succeed where similar US. double-digit growth rate Mr Japanese and European

motorcycling - there are nearly 9.5m motorbikes and scooters on the road - has resulting in serious polluthe provisional legislature expected to perform tion problems largely from appointed by China to run efficiently," he said.



brave face on the loss. "It's only one individual," he

temporary downfall.

ASIA-PACIFIC NEWS DIGEST

## **Rival faction** 'holds Pol Pot'

Pol Pot, leader of the Khmer Rouge who has been on the run from his former comrades for a week, is reported to have surrendered to them in a remote guerrilla stronghold in northern Cambodia, a senior government general said yesterday.

Gen Nhek Bunchhay, Cambodian deputy army chief of staff, said the guerrillas planned to hold Pol Pot until he could be judged by an international tribunal for his role in the genocidal regime he led between 1975 and 1979 that

caused the deaths of 2m Cambodians. Earlier, the Khmer Rouge clandestine radio claimed that Pol Pot had "confessed", although it was not clear to what, and implied that the revolutionary leader was in

the custody of the faction that had turned against him. Gen Nhek Bunchhay had flown to the rebel stronghold of Anlong Veng in northern Cambodia earlier in the day to cement the defection of about 1,000 guerrillas holed up there with Pol Pot since the Khmer Rouge disintegrated lastyear. Those negotiations are believed to have provoked a clash in Phnom Penh on Tuesday between security forces loyal to Prince Norodom Ranariddh, the first prime minister and second prime minister Hun Sen. Mr Hun Sen warned the governing coalition might fall apart if Prince Ranariddh continued to court the guerrilla group. The prince is seen as wanting Khmer Rouge support in national elections planned for 1998. AP. Phnom Penh and Ted Bardacke, Bangkok

#### Australian convention rebuff

Plans by Australia's conservative federal government to hold a "people's convention" later this year to discuss whether the country should become a republic were rebuffed yesterday when the Senate, parliament's upper house, voted against a voluntary postal ballot to elect half

The senate vote was extremely narrow, at 34-33 in favour of an amendment which would make the ballot compulsory. It subsequently voted in favour of further amendments requiring the government to hold an

"attendance ballot" instead of a postal ballot. The convention was promised by the government during the last election campaign, and would look at how Australia might go about cutting its constitutional ties to

the British monarchy. If a consensus emerged from the convention, a referendum would then be held, allowing Australians to

vote on the issue of becoming a republic. However, the government has announced plans to appoint half the 152 delegates to the convention, and is suggesting that the remainder be selected by a voluntary postal ballot. Legislation to implement these plans has run into strong opposition, because Australia normally insists on compulsory voting and because of fears that it will invite tampering allegations. Nikki Tait, Sydney

#### N Korea warns of 'final battle'

The North Korean military yesterday warned that it was prepared for a "final battle" with the US and South Korea, which it accused of preparing an attack against the North weakened by food shortage. The Seoul bourse fell by 2.4 per cent on rumours that foreign investors were selling heavily in response to the statement from Pyongyang.
"At this moment when dark clouds of war are rushing

toward our motherland and fighting is about to break out, our revolutionary armed forces cannot remain an onlooker to the situation, pinning hopes on dialogue for an indefinite period," the state-run Korean Central News Agency quoted the military spokesman as saying. Analysts regarded the military statement as a warning

that US and the South Korea should not take advantage of the food shortage to launch an attack, which has become a main worry in Pyongyang recently. The statement underscored concerns in the Seoul that North Korea might launch a pre-emptive strike if it felt its security was threatened because of the food John Burton, Secul

#### Indian politician digs in

Mr Laloo Prasad Yadav, embattled leader of prime minister LK. Gujral's Janata Dal party and chief minister of Bihar state, yesterday refused to stand down after police were given the go-ahead to charge him in a \$280m. animal fodder scandal.

He said Mr A.K. Kidwai, New Delhi-appointed governor of Bihar who on Monday gave the Central Bureau of Investigation the green light to prosecute, had been misled by investigators. Mr Kidwai told the CBI they could also charge two Bihari state ministers.

The development makes Mr Yadav's position

increasingly untenable. Yesterday senior members of the 15-member United Front coalition of which the Janata Dal is the largest member, said Mr Yadav should consider his position as chief minister. Congress, the government's main parliamentary ally, also joined calls for his resignation as chief minister. Mr Yadav, who is locked in a bitter Janata Dal leadership contest scheduled for later this month, would be the first sitting chief minister to be Khozem Merchant, New Delhi

#### reports say Gen Zhou told customs officials that they should show more respect after they asked to see his papers during a border crossing last of the "world's 20 largest economies" ing sensitivity of global flows to if growth continued to average 7.5 changes in economic indicators, the ner cent until 2005. month. China at the Gateway, Page 11 Manila SEC refutes share fixing charges

By Justin Marozzi in Manila

The Philippine Securities year. and Exchange Commission

manipulate share prices. the SEC's ineffectiveness as market watchdog was reduc- in the local press, said SBC

tuted the preliminary find- only to buy them back after ings of a probe into sharp steep falls. Foreign brokers the SEC statement. "We

falls in share prices of propand investors had conspired have stated categorically favoured an end to separate erty companies earlier this to realise profits to the preject that we have not been shortlisting of shares open to for-

bank said.

After prompting by one of they said. (SEC) has taken the unusual the accused brokerages, the tions made in two leaked tial findings of the reports internal reports that foreign were "insufficient to warrant involvement of certain bro-The denial comes amid kers in an alleged conspiracy

The reports, widely quoted ing the standing of the Warburg and Jardine Fleming had sold shares in the The leaked reports consti- Empire East property group

of repudiating accusa- SEC said yesterday the ini- investigation after extreme other brokers." Jardine SEC policy was being deter-Empire East and Megaworld, broking houses conspired to any conclusion, let alone the another property group, prompted allegations some brokers had started delibergrowing concern in the to manipulate". The probe ately misleading rumours mance amid doubts over its regulation. Investors are financial community that would continue, it said. about financial difficulties in ability to conduct orderly going to be increasingly the companies. In one session in April, shares in

> per cent and those of Empire East 30 per cent. SBC Warburg welcomed

udice of the investing public, selling these securities," it eign investors. The move said. "We do not, have not, caused a sell-off of such The SEC launched the and will not conspire with shares and complaints that turbulence in shares of Fleming said it was still trying to contact the SEC.

Chinese Maj Gen Zhou Borong waves as he leaves Hong Kong's customs

and excise training school. Hong Kong legislators yesterday demanded

information about reports that Gen Zhou had criticised customs officials

for stopping him at the border, John Ridding writes. The row is the first

dispute over the presence of the People's Liberation Army in the territory,

which returns to Chinese sovereignty at the end of the month. Local press

The latest embarrassment malpractice. Mr Perfecto Megaworld plummeted 41 Yasay, its chairman, was sharply criticised by mem-

mined in the newspapers. "The SEC really needs to get its act together," said

to the SEC comes amid pres- one foreign banker. "The sure to improve its perfor- real issue is compliance and investigations into market warv of investing in a market where they feel there is a chance they are not getting information in a free and bers of the Philippines stock fair way and that there are exchange recently when he insiders who will always was quoted as saying he know more than them."

## FINANCIAL TIMES

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## Ramos expects to take elder statesman role

By Peter Montagnon, Asia Editor

President Fidel Ramos of the Philippines said he expects to play a continuing role in national affairs as an "elder statesman" after he steps down at the end of his

mandate next year.

A presidential term of six years was "long enough for me," he said during a visit to Britain, but he added that he would still have a political role to play as chairman of Lakas, the country's largest

party. His statement is a clear indication that Mr Ramos. who is credited with kick-starting the country's economy and cementing the hopes to retain an important behind-the-scenes role after

he leaves office. A ruling from the Supreme Court earlier this month dashed hopes among his supporters that a constitutional way could be found for him to stand

Mr Ramos said he was confident his party's election, but he was careful not to feed mounting speculation as to whom he would support as his successor. There were a lot successor while he was still of "wannabes", he said, but in office. it was not clear who was

"presidentiable". Mr Ramos also told a press conference that a Philippine

Hong Kong after its handover, and he made an upbeat forecast for the Philippines economy.

Strong activity in the first quarter - thanks to a sharp Investment Corporation, 3.3 per cent rebound in which he heads. previously depressed agricultural output and a 22 per cent growth in exports meant the economy was on track to achieve a 7 per cent growth rate this year, which should accelerate to 8 per

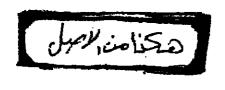
cent next. That will fall short of the Ramos once wanted to achieve during his administration, but, if next year's forecast is met, he will leave office with growth in the upper range of levels post-Marcos democracy, prevailing in south-east

> Mr Ramos said his post-presidential role would not be an official one like that of Mr Lee Kuan Yew in Singapore, who was given a he stepped down as prime

But he would be involved in think-tanks, export and candidate would win the maintaining high-level contacts abroad. He would also take an

minister.

"The problems of the world and of the Philippines are so complex that a newly elected president can't just delegation would attend the take over, sit down on the controversial swearing in of presidential chair and be



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15

Australian consentional

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## Israeli power struggle draws cabinet blood

By Judy Dempsey

When Israel's cabinet meets tomorrow, the minister most conspicuous by his absence will be Mr Dan Meridor, who quit as finance minister early yesterday.

Mr Meridor resigned not because he disagreed fundamentally with the Bank of Israel's decision to alter Israel's exchange rate mechanism - but rather, as he asserted, because he could no longer continue in the government headed by Mr Benjamin Netanyahu.

He believed, too, that Mr Netanyahu had "ulterior motives" in convening a cabinet session late on Tuesday

to debate monetary policy. For Mr Netanyahu, the timing of that meeting was impeccable as five ministers were absent. They included Mr Yitzhak Mordechai, the defence minister, who was in the US and Mrs Limor Livnat, communications minister, who was in the Philippines. Both are at loggerheads with Mr Netanyahu

Livnat to postpone the cabi- political base left." net meeting until tomorrow, when she would be back in the country. "He knew she would try to support Meridor," one finance ministry official said.

"It was a great victory for Netanyahu," said Mr Efraim Inbar, political scientist and director of the Begin-Sadat Centre for Strategic Studies at Bar-Ilan University. "He got rid of Meridor, his opponent. He never wanted him in the first place as finance minister. The Likud party will be pleased by that."

Likud members tended to regard Mr Meridor, a fellowmember of the group and a former justice minister, as a "dove" on the peace process, while religious parties in the coalition saw him as too secular. Other groups opposed his cuts of Shk7.2bn (\$2.1bn) in this year's budget aimed at bringing the deficit down from 4 per cent of gross domestic product to 2.8 per

cent by the end of the year. "Netanyahu manceuvred his way into getting rid of Meridor," said Mr Inbar. "Meridor fell into the trap and is now out. He has no

But the victory may turn

out to be a Pyrrhic one. While many Israelis still cannot fathom the intricacies of the currency debate, Mr Netanyahu is now saddled with two problems and their outcome could deter- raise them again if fiscal polmine not only the future of fiscal policy, but also the stahility of the government.

On fiscal policy, whoever

succeeds Mr Meridor will almost certainly be beholden to the many interest groups in the coalition. The religious parties will demand more funds for the veshivot. the religious seminaries. The nationalist parties will demand more money for settlements and the lobby around Gesher, led by Mr David Levy, the foreign minister, will demand more spending on development

"Fiscal policy could be clearly undermined," said Mr Gad Haker, international department head at Ilanot-Batucha Investments. "Whoever succeeds Meridor needs the support of Netanyahu and the Bank of Israel, and could weaken his bargaining must be strong enough to

stand up to all the different interest groups."
He added that the Bank of

Israel - which lowered interest rates by 1.2 percentage points yesterday to 12.7 per cent on daily commercial loans - could be forced to icy is undermined This could have the effect

of attracting more foreign funds to take advantage of high interest rates. But it money supply, put pressure on inflation and force the Bank of Israel to intervene. The other problem facing

Mr Netanyahu is his style of government. Mr Natan Sharansky, head of Yisrael Ba'Aliya, the Russian immigrant party, and Mr Avigdor Kahalani, head of the Third Way, are highly critical of Mr Netanyahu's insistence on marginalising dissent and opposition.

Since these parties hold the balance of power, the government remains far from stable, although Mr Sharansky is embroiled in corruption allegations that

company willing to take on

the entire Kazakh gas grid,

including the Alaugas company which transports gas

from Uzbekistan toutilities



Dan Meridor speaking to reporters yesterday after a power struggle with the prime

## Tractebel snatches Kazakh gas pipeline contract

By Charles Clover in Almaty,

Tractebel of Belgium has won a contract to manage Kazakhstan's natural gas pipeline network for 15 years. The deal, announced this week, surprised observers as it had been thought that Bridas, the Argentine oil company, was negotia-ting exclusively with the Kazakh government.

Bridas may have lost because of a conflict of interest with its role in Turkmenistan. Bridas is locked in several disputes with the it might have been able to oil and gas properties, and system to hamper Turkmen a few weeks ago, however,



there were suggestions that use the Kazakh gas pipeline

in south-eastern Kazakhstan. Most of the utilities supplied by Alaugas are insol-

vent, and the company may be heavily in debt. Enron and Gaz de France, for example, had jointly submitted a bid for Kazakgas, the western half of the pipeline system which transports gas from Uzbekistan and Turkmenistan to Russia, for an 18

Talks between Tractebel and the Kazakh government

Bridas had been the only began several weeks ago. Tractebel was willing to take on Alaugas probably because the Belgian company also operates Almaty Power Consolidated, which is Alaugas' main customer.

Under the terms of the contract, Tractebel will control the natural gas pipeline network for 15 years, with a possible five-year extension. The company will pay the government a \$30m bonus, as well as a 2 per cent royalty on overall gas volume and 40 per cent of net profits. The government's share of earnings is subject to Tractebel has pledged

\$600m in investment for akh government. repair, construction, and planning costs. It will also provide nearly \$100m to build a pipeline in southern Kazakhstan to bypass Kyrg-

The agreement accompanies a flurry of activity in the privatisation of Kazakhstan's utilities. Two weeks ago, a consortium of the Swiss/Swedish engineering group Asea Brown Boveri and the East German company Veag, which in April had signed a concession to operate Kazakhstan's highvoltage electric grid, lost their contract over unspecified differences with the Kaz-

South Korea's Daewoo, meanwhile, was recently awarded a 40 per cent stake in Kazakhstan's telecommunications monopoly Kazaktelecom after negotiations with Deutsche Telekom fell

through last January. ABB is primarily a manufacturer of electrical generating equipment, and the Kazakh government may have feared that it would use its position as grid operator to monopolise the building of power stations in Kazakhstan. ABB already has one power project in the building stage and many more on the

## traders arch-foe Syria

uhlican

group of smen beaded back to Baghdad yesterday after a ground-breaking visit to Syria, AFP reports from

The delegation, made up of representatives of the official Iraqi Chambers of Commerce, was escorted to a border crossing point by Rateb Shallah, head of the Syrian Union of Chambers of Commerce, the official Syrian news agency SANA reported.

The five-day visit was the first to Syria by a group of Iraqi businessmen since the two countries severed ties 17 years ago at the start of the Iraq-Iran war, when Damascus backed

Syria and Iraq are led by rival factions of the Baath Party.

Last month a Syrian delegation travelled to and begin talks on resuming trade. The Iraqi-Syrian border, closed in 1982, has also been reopened for businessmen industrialists.

The two countries have since signed contracts for the first time since 1980. and Syria has suggested that its territory might be used as a transit point for goods destined for

Mr Zuheir Abdel Ghafur Yunes, head of the Iraqi delegation, told SANA: "We hope this visit will be followed by others in order to step up economic and commercial relations in the interests of both

During the visit, the Iraqi delegation toured several Syrian cities, commercial and industrial sites and met a number of high-ranking Syrian officials, including the trade, transportation and health ministers.

#### **NEWS:** WORLD TRADE

#### S Korean campaign upsets Europeans

By John Burton in Secul

European companies in South Korea are complaining of government harassment, despite a recent promise by Seoul not to discriminate against imports in its "frugality" campaign to reduce the country's cur-

rent account deficit. Korea made the pledge last month in an effort to avoid a threatened complaint to the World Trade Organisation by the European Union over the impact of the "frugality" campaign on imports.

"We greeted the statement with optimism. We thought the government harassment would stop. But it hasn't," said Mr Gerhard Pils, head of the automotive committee for the EU Chamber of Commerce in Korea.

Reports that the government will conduct tax audits of Korean consumers of luxury goods, including cars, have revived European importers' worries. The US and the EU have previously alleged that such audits have discouraged purchase of foreign goods.

The government is creating a social bias against foreign products. Can any Korean buy a foreign car when he knows he is liable to a tax audit?" asked Mr Pils, who is executive vice-president of the US air force, the McDon-nell Douglas AV-8B jumpjet used by the US marines, the BMW Korea.

European cosmetic compames also claim that officials have become "very aggressive" in conducting audits and applying new regulations. Regulatory harassment, with audits and investigations, has recently intensified," said Mr Martin Guillou, who heads the cosmetics committee at the EII Chamber of Commerce. "The climate of doing business in Korea for importers of cosmetics is rapidly deteriorat-

Despite the new complaints, some EU officials in Seoul believe that conditions for foreign companies will soon improve. "Once the economy improves, the frugality campaign will go out corporate victim years the window," said one. before the first jet rolls off year life of the programme.

## R-R clinches \$700m Gulfstream deal

and Jonathan Wheatley

Rolls-Royce, the aero-engine

to equip Gulfstream jets the engine maker said.

engines to Gulfstream. The contract will provide a

welcome lift to the Tay pro-

money, even by the

standards of the defence

industry. That is roughly

how much the US order

alone for the Joint Strike

Fighter will be worth, with

at least as much again being

generated by sales in the

international market place.

The programme is so enormous because the JSF is

being designed to replace a

whole swathe of aircraft, including the Lockheed F-16, which forms the backbone of

Sea Harriers and the US

navy's F/A-18 strike jets. The

US alone will buy around

3,000 of the aircraft, and

users of the F-16 worldwide

are bound to be interested in

the next-generation, radar-

the two US companies fight-

ing to win the contract to

produce the jet when a final

decision is made in 2001, the

outcome of the JSF competi-

tion will determine who

dominates the fighter indus-

try in the 21st century. The

programme is so big it has

already claimed one large

For Lockheed and Boeing,

avoiding stealth JSF.

UK navy's British Aerospace the Wrong

were powered by Tays.

operation, he added.

last week to \$1.3bn.

ne hundred billion the production line; it was dollars is a lot of McDonnell Douglas's elimi-

further 175.

The Gulfstream deal, unveiled at the Paris Air

The UK aircraft company has thrown in its lot with

Lockheed – battling Boeing for a huge fighter order

nation from the competition

last November which finally

led the company to sue for

terms and merge with Boe-

If the programme is vital

for US aerospace giants, it is

equally important for British

Aerospace. The British gov-

ernment is putting \$200m

into the JSF programme in

BAe has had to

tread carefully,

having picked

partner in the

the expectation that the

jump jet version of the air-

craft will produce a super-

sonic replacement for

Yet JSF is worth far more

to BAe than the 60-80 jets

which the ministry of

defence might order for the

navy. Lockheed has offered

BAe 12 per cent of the whole

production run of the air-

craft, a deal which could be

worth more than £10bn

(\$16.3bn) to BAe in the 20-

Britain's ageing Harriers.

first round

The twin-jet aircraft will

be powered by engines from Rolls' US subsidiary, Allison. The deal follows a contract 145s and options to buy a

for 42 EMB-145s and 25 options.

More than that, it will give BAe access to advanced US

technologies and engineer-

ing processes to keep it close

to the cutting edge in fighter

design. Most important of all

however it forms a strategic

partnership between BAe and Lockheed, which could

form a nucleus for a future

transatlantic aerospace com-

Given the stakes, and the

importance attached by the

Pentagon to the presence of

Boeing started with an

advantage. Having quickly

agreed a full merger with

McDonnell, it offered BAe an

attractive package of work on its JSF design. Given that

BAe's engineers have formed

close relationships with

tion on US versions of the

Harrier and Hawk trainer

over many years. BAe's mili-

tary aircraft division was

Lockheed was initially

to support the Boeing

McDonnell by the co-opera-

ing the first quarter of next year and begin delivering the next 25 EMB-1456 in the second quarter.

The two contracts are set to return Embraer to the black this year after seven years of losses and confirm the success of an efficiency drive begun after its privatisation in 1994.

four-engined Airbus A340

Rolls' engines have also been ordered for up to 12 new Boeing 757 jets to equip Icelandair. Both South African Airways and British Airways confirmed their choice of Rolls-Royce RB211-524 engines to power future deliveries of Boeing 747s.

Rolls has also been successful in winning repair and overhaul contracts - an area where it is trying to build up its business. Rolls-Royce Aero Engine Services said it had won \$200m of contracts in 1987. including \$60m of work on

WORLD TRADE NEWS DIGEST

## Caracas seeks compensation

Venezuela is seeking compensation from the US, following a ruling by the World Trade Organisation (WTO), that it had incurred losses as a result of discrimination against its petrol exports. Mr Luis Giusti, president of Petroleos de Venezuela (PDVSA), the state-owned petrol company, said he was not sure of the exact amount of the claim, but indicated there was "an opportunity cost of about \$50m. "We will have to wait for the politicians to resolve it," he added.

The WTO last year ruled in favour of Venezuela and Brazil after they complained that strict US environmental regulations were benefiting domestic producers of petrol. In response, the US promised to modify its laws by August 20 this year. Venezuela is the principal supplier of Raymond Colitt. Caracas

#### Music industry lobbies MEPs

Record executives yesterday met members of the European Parliament's culture committee in Brussels to discuss the future of the music industry in Europe. Stepping up the industry's battle against music piracy was on the agenda, along with the need to extend copyright protection legislation to cover digital distribution of music on the Internet and other online services. The music industry also pressed for the value-added tax on recorded music to be reduced in line with that on other cultural products.

The meeting forms part of the music industry's attempts to secure stronger political support within the European Union. In the US, the Clinton administration regularly lobbies on the music industry's behalf in international trade talks. European record executives have long complained they do not receive the same level Alice Rawsthorn, London

#### Carmaker seeks hotel partner

Chinese Automobile, a Taiwanese car manufacturer, is seeking foreign partners to build a T\$10bn (\$358m) international-class resort complex in northern Taiwan. The company is courting international chains such as Hilton Hotels to manage the resort in Taoyuan County. The Taiwan government recently announced plans to begin phasing in a five-day working week in 1998, a move expected to increase demand for vacation resorts and boost the leisure industry.

Most people in Taiwan now work a six-day week. including a full or half-day Saturday, Construction of a theme park, club and hotel is to begin next year for a planned opening in 2002. Executives said Chinese Automobile was trying to diversify beyond its car and construction businesses. The company is part of Holeng.

#### Greeks in \$185m ships deal

Latsis, the London-based Greek shipping and oil refining group, has ordered six product carriers from Korea's Hyundai shipyards under a long-term fleet renewal plan. The fleet renewal is part of a group restructuring aimed at strengthening its shipping activities. Bilinder Marine, the group's shipping arm, will take delivery from 1999 of the 45,000-tonne carriers. The cost is reported to be about \$185m, to be financed through bank loans. The ships mark Latsis' entry to the products market as a carrier for other

By Ross Tieman in London maker, halted production. exercise options on 25 Braziloptions for a further 194. ian-built Embraer EMB-145 Embraer will complete Both the Fokker 70 and the Fokker 100 regional jets regional airliners for \$375m. delivery of Continental Express's original order dur-

maker, vesterday said it had secured a \$700m order to supply Tay engines to power Gulfstream IV corporate jets. The engines will be used

delivered up to the year 2003, Rolls, based at Derby in the UK, has already delivered more than 600 Tay

Mr John Cheffins, managig director of Rolls-Royce

gas exports, all of which

Until Tractebel came along

pass through Kazakhstan.

Commercial Engines, said: "This order secures a long-term future for the Tay and GIV." The engine had also been chosen to re-equip Fokker 28 jets already in

Show, brings the total value of contracts announced by Rolls since the show began

signed last September setting firm orders for 25 EMB-

It comes a day after Embraer announced a deal worth between \$670m and 11hn with American Eagle. the regional unit of American Airlines, for firm orders

Rolls-Royce announced that its Trent 500 engine, latest in the company's Trent

family of large aero-engines, gramme, which lost a key It was accompanied by It brings Embraer's firm had been selected as the customer when Fokker, the news that Continental orders for the narrow-powerplant for a new Netherlands regional aircraft Express, the US airline, is to bodied jet to 132, with long-range version of the BAe takes a billion-dollar gamble



the UK in the programme, both Lockheed and Boeing slower to respond, and made at the potential reaction of had been pursuing BAe hard in recent months to form the production work for its fackind of strategic team tories, but a less enticing announced yesterday. BAe package of high technology has had to tread carefully. development work. However. having picked the wrong as negotiations progressed partner by backing McDonover the spring, Lockheed was forced to match the nell Douglas in the first round of the competition. terms offered by Boeing.

In choosing between the two bids, Sir Richard Evans, BAe's chief executive, was looking for a strategic deal which would leave him well placed with technology and in the right place to seal a transatlantic defence merger if it became a possibility in the future. He also had to balance

internal concerns. While his military colleagues favoured Boeing, his civil airliner operations, part of the Airbus consortium, was worried

BAe an offer which gave it BAe's continental partners to a deal with their bitter rival. Eventually, the possibility that a future combined European defence and aerospace company, formed from the Airbus partners, could form an alliance with the largely military Lockheed to rival Boeing in the world market, was the deciding

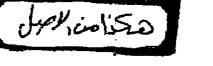
> One consideration remains however. Sir Richard and his colleagues cannot yet be certain that they have picked the winning aircraft. Having sounded confident about their previous alliance with McDonnell and then badly beaten, they cannot afford a second mistake.

> > Bernard Gray

mslev in

or this delate

المكناهن المجل



## Republican row gives Clinton tax advantage

colleagues, on the thorny

Why are people so cynical

about government? Because

they've been promised so

ment that it will solve their

problems when in fact it's

impossible for it to do so,"

Yet Mr Bush has perhaps

attempt to take the govern-

ment out of traditional areas

Nothing illustrates the

radicalism better than his

which aimed to privatise

of assistance to the neediest.

a form of what he calls "one-

The Bush proposal was for

Private companies were

permitted to administer a

range of social services

under one roof - welfare,

of administration.

stop shopping".

Government should do a

tion, for example.

Squabbling among members of the Republican majority in Congress is compromising their ability to mount a coherent challenge to President Bill Clinton over how exactly a \$85bn tax-cutting pack-

The latest Republican proposal, announced this week by the Senate finance committee, has earned fresh rebukes from the administration on grounds that it places

Both the House and Senate bills would reduce the top rate of capital gains tax for individuals from 28 to 20 per cent. But the version proposed by Senator William

While both bills offer families a into an educational savings

deplored by conservative, pro-fam-

Administration officials said Mr

In another development which

House speaker. The implicit challenge by Mr Armey, who would be next in line botched Republican attempt to tie ish them for their dissident stance

Mr Clinton forced his opponents to withdraw the amendments office - and refusing to answer after vetoing their initial version Mr Armey's challenge has given

encouragement to a group of conservative legislators who complain that Mr Bob Livingston, chairman of the house appropria-

## attracts criticism

By John Authors

Doubts persist about a wide reworking of US banking of the worlds of US banking and commerce edged closer this week.

On Tuesday, the House Banking Committee voted 35-19 to allow banks to buy non-financial companies - a key change to laws originally passed in the 1930s which barred commercial banks even from entering the securities or insurance

The measure would not let banks derive more than 15 per cent of their turnover from commercial investments. They would also be prohibited from affiliating with companies with assets of \$750m or more, thus, in effect, exempting more than 1,000 of the nation's largest

But the provision on merging banking and com-merce is widely considered the most important and contentious issue in the field of financial services reform and the measure was only passed after strongly

vorded debate. The majority Republicans are split over the issue. Ms Marge Roukema, Republican congresswoman who chairs the sub-committee on financial institutions and consumer credit, is a strong proponent. Mr James Leach, banking committee chairman, is opposed and says there is no economic ratio-

nale for the measure.

Some Democrats also oppose it, including Mr Henry Gonzalez of Texas. who said it could create "risks that we don't understand and cannot foresee". He added: "It is very much like assuming that a nuclear power plant really doesn't

need all that safety gear." Moreover, few banking organisations are lobbying for the reform, which is opposed by some significant Wall Street figures.

THE ROYAL

#### too much emphasis on tax relief chairman, would not allow index- expenses to the families of 11m majority leader, unleashed a wave. Clinton last week. ing for inflation or reduce the corof speculation by agreeing to host But the Senate's package porate rate.

age should be put into practice.

Bush does not have like a man who has Bush does not look

setback in his short but

The son of the former pres-

ident, governor of Texas, the

second largest US state, Mr

Bush is now one of the most

powerful figures in the

Republican party establish-

But two weeks ago, the

Texas legislature dealt a blow to Mr Bush's rolling

programme of radical reform

which has turned Texas into

an experimental test-bed for

some of the most significant

changes in social policy in

Legislators rejected his

plan for a radical overhaul of

the state's tax system, a pro-

posal that would have

slashed property taxes by

\$4bn in exchange for a steen

increase in sales tax and a

mcome - all aimed at put-

ting the state education sys-

tem on a more stable finan-

the plan's approval. But con-

templating his defeat, he is

as bullish as ever about the

outlook for the reform strat-

when you spend capital," he

AMERICAN NEWS DIGEST

new tax on professionals'

the country.

cial footing.

highly promising political

just suffered the first real

appears to be somewhat more palatable to Mr Clinton and his Democratic party than its House counterpart, on which a full vote is expected next week.

Roth, Senate finance committee

says, "You earn capital. And Gordian knot - the school

the m

financing system in Texas is chaotic - but who was

defeated by a combination of

special interests and inertia

in the state house. And he

even managed to engineer a

\$1bn property tax cut out of

programme of reforms in his

two and a half years has

been the principal reason

why he has attracted so

The governor brushes aside a setback in his reform

drive. 'You earn political capital. Although I don't

With Republicans in Wash-

ington in disarray over how

much further to press their

conservative agenda, Mr

Bush seems to have discov-

combines an assuredly anti-

The Bush strategy has

been a populist brand of

modern conservatism, but

without the hard edges and

slightly wacko quality of

some of his colleagues in the

He has taken a noticeably

Republican party.

much attention as a poten- done more than any other

tial presidential candidate, governor in the US to

ered a magic formula that welfare reform legislation,

statist approach with a much of the state's provision

softer line than many of his poorest, food assistance.

live and die by opinion polls, in the middle of this

big fight the numbers were never stronger.

The governor's dynamic

although I don't live and die

by opinion polls, in the mid-

dle of this big fight, my num-

Mr Bush is being some-

He watches his numbers

like a hawk, and he knows

that the remarkable success

so far of his legislative pro-

gramme and a strong per-

sonal appeal make him, at this admittedly early stage,

to be the Republican party's

he has made no decision on

whether he will be a candi-

date for president in 2000, he

is obviously pleased with the

even trying."
The setback on tax reform

is in fact being worked ener-

getically to his advantage,

enhancing the governor's

reputation as a man who

had the courage to tackle a

"Here I am, just a little

splash he has made.

Mr Bush had said he fellow in Texas trying to do

would spend every dime of my job, and every poll I see

his political capital to secure raises my lead. And I'm not

Though he routinely says

next presidential candidate.

bers were never stronger."

what disingenuous.

tax credit of \$500 per child up to account of some of their criticism the age of 17, the Roth bill would require parents of teenagers to Archer, who heads the tax-writing put the proceeds of this tax break

Roth's proposal had taken of the tax bill drafted by Mr Bill committee in the House.

could turn to the White House's This feature of the bill has been advantage, Republicans in the House are absorbed by an unexily lobby groups who argue that it pectedly fierce round of internal offers no help with current bickering Mr Dick Armey, House

a meeting of party rebels in his whether he supported the leader- of the bill. ship of Mr Newt Gingrich, the

for the speaker's job, follows ferment within the party over a tions committee, is trying to punextraneous amendments to a by witholding money from their disaster relief bill signed by Mr districts.

#### 'Little fellow in Texas' has eye on dad's old job in Washington George Bush Jr is being seen as a presidential candidate, writes Gerard Baker The idea, he says, was to get the poor off a culture of welfare dependency and into immediate contact with the

avoid dependency on govern-Companies, Mr Bush claims, are much more likely to encourage people off welfare dependency than gov-

What can I do to help you

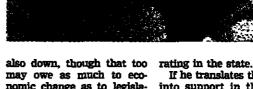
"Under our planned sys-

The Clinton administration, alarmed at the wholesale privatisation of welfare the Texas plan seemed to involve, told Mr Bush it would not allow the programme to go ahead.

Undaunted, Mr Bush last week signed into law new bills that would let religious organisations administer some aspects of welfare support, such as child care and helping the unemployed into

That followed earlier legislation allowing religious organisations to run parts of rehabilitation programmes for minor offenders.

After two years of Bush Texan radicalism, it is too early to say whether any of it has worked. Welfare rolls are indeed down, though that may simply reflect the booming economy. Crime is him a 70 per cent approval



But it is clear that the governor, who seems certain to run for another four-year term next year, is at least

reaping the political benefits. One recent poll gave

# tem, the first words out of the mouth of the person whose job it is to help is

the prison service such as may owe as much to economic change as to legisla-

If he translates that rating into support in the voting booth next year, and if the Republican party nationally continues to drift, in need of a fresh sense of direction, the campaign for a second President George Bush in less than a decade may get

# Caracas seek

compensation

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Helmsley in property sale

Mrs Leona Helmsley, 76-year-old widow of the New York property tycoon Harry Helmsley, put her \$5bn property empire up for sale yesterday and announced that she had appointed Eastdil Realty, a New York real estate banking company, as her exclusive adviser and sales representative for the portfolio.

The properties include 25m sq ft of office space, 20,000 residential units, 7,500 hotel rooms, 50 retail projects, 8m sq ft of warehouse space and hundreds of acres of unimproved land. They were assembled by Mr Helmsley in a 50-year real estate career that ended with his death in January at the age of 87. Mrs Helmsley was nicknamed the "Queen of Mean" for her autocratic treatment of employees. Indicted for tax evasion in 1988, she was convicted of evading \$1.2m in federal taxes and sentenced to four years in prison after a headline-grabbing trial in which one witness quoted her as saying: "We don't pay taxes. Only the little people pay taxes."

A spokesman for Mrs Helmsley said she would be likely to retain the luxury New York hotels – the New York Helmsley, the Helmsley Park Lane, the Helmsley Middletowne and the Helmsley Windsor. The contents of the Helmsley portfolio have never been clear, but include the Harley chain of hotels, and the operating lease of the Empire State Building. Richard Tomkins, New York

#### Clinton in China debate

US President Bill Clinton and influential Congressmen were due to meet last night to discuss policy and budget changes to encourage human rights advances in China. The meeting comes one week before the US Congress votes on the extension of China's Most Favoured Nation

Mr Clinton's proposal will include a commitment by the administration to monitor China's human rights record through such actions as increasing staff at the US embassy in Beiting, according to the Los Angeles Times. Mr Clinton is also calling for increased funding for Radio Free Asia and the National Endowment for Democracy Program, as well as the creation of a privately funded

institution to support Chinese-American exchanges. Recent legislative bills have been aimed at condemning China's human rights policy while maintaining trade relations with the US. Yesterday, two senators introduced the China Sanctions and Human Rights Advancement Act, which would require the president to enforce existing pro-democracy programmes without affecting MFN Heather Bourbeau, Washington

#### Joe Camel ban contested

R.J. Reynolds Tobacco, part of RJR Nabisco, the US tobacco and food group, is suing the Federal Trade Commission over the agency's attempt to ban Joe Camel, the half-man, half-beast cartoon character the company uses to advertise its Camel cigarettes. RJR says the FTC's investigation constitutes politically-motivated

harassment. Last month the FTC filed an unfair advertising complaint against RJR claiming that the Joe Camel campaign was illegal because it enticed under age youngsters to smoke cigarettes. It said the investigation followed new evidence that had emerged since 1994, when the agency decided not to pursue an investigation.

RJR claimed FTC staff had ignored proper procedures in reopening the case - for example, in failing to give RJR an opportunity to dispute the charges before putting them to the agency's commissioners, who voted 3-2 to bring the Richard Tomkins

#### 'Made in | Chile USA' starts a storm

By Nancy Dunne in Washington

The Federal Trade Commission has provoked a storm of protest among some consumer groups and in Congress by proposing to dilute regulations governing the "Made in USA" label.

A resolution, sponsored by 53 congressmen, was introduced in the House yesterday urging the FTC not to implement a proposal which would allow products with as little as 75 per cent US content to bear the "Made in USA" label.

The National Consumers its members to support the FTC to keep its standard which requires that products be all or virtually all made can be used.

Congressman Bob Franks, a New Jersey Republican, eight years in office, voting said yesterday: "We cannot consistently with the opposiafford to allow a federal agency to take away an important incentive for American manufacturers to expand their domestic better products and hire more workers."

In proposing to change the standard, the FTC said it was reflecting the changes in consumer expectations about domestic origin claims and changes in the world market place, giving "manufacturers and marketers increased flexibility in promoting the domestic parts and labour that go into their products".

immediate reaction among labour unions and consumer groups, which formed a began gathering congressional support against the FTC. Congressman George Miller, a California Democrat, has introduced legislalabel to companies adhering claimed companies making goods in the Commonwealth | giving him parliamentary of the Northern Mariana Islands, a US western Pacific | If all non-elected senate territory, were paying sub- posts are abolished, the genminimum wages to immi- eral could be vulnerable to grants while using the label court actions.

## reform **Senate**

General Augusto Pinochet.

and has widespread public support But the proposal, aimed at concluding the transition to democracy, was voted down League yesterday called on once again in the Senate. with the support of most of resolution and urged the the right-wing opposition "designated" senators. They were named at the end of the in the US before the label military regime, and have

> consistently with the oppositution

Opposition parties have

By Imogen Mark in Santiago

Chile's centre-left governing parties were defeated on Tuesday in a third attempt to reform the constitution they inherited in 1990 from the military dictatorship of The reform - which would abolish the office of nine non-elected senators - has

commitments of the govern-

ment and of its predecessor,

Congress throughout their

Next March, however, the term of the current group expires. As a result of Tuesday's vote, the government operations, produce new and | will name two of the next group, and hope to influence the nomination of two or three others, though four of the nine are selected by the armed forces. But with its own nominees the government can hope to garner enough votes in the next Congress to abolish the insti-

always argued for the presence of the designated senators as a moderating check The proposal prompted on possible leftwing excesses in the government. In practice, the social democrat Socialist party and its sister Made in USA Coalition and Party for Democracy have shown themselves to be sober and pro-free market. An additional complication in the debate has been the status of Gen Pinochet, tion to restrict the use of the | who retires as head of the army next March. As a forto all US labour laws. He | mer president he takes an ex officio life seat in the Senate.

immunity from prosecution.

#### **EUROPEAN ECONOMIC AND MONETARY UNION** The Politics and Practicalities

a conference organized by The Royal Institute of International Affairs sponsored by CLIFFORD CHANCE

Thursday 23 & Friday 24 October 1997

Chatham House, London, UK

The preparations for EMU on 1 January 1999 will enter their final and most critical phase next year. While the timetable and framework for EMU are formally in place, dramatic changes to the political landscape in France and Germany still threaten to overturn a delicate

consensus in both countries, the practical politics of meeting the budget criteria are extremely tight, if not impossible. What is the political, economic and legal scope for a flexible interpretation of the EMU criterial Which countries would be included in such an interpretation and what are the implications of a wider group for the BMU transition period, the international position of the euro, and the longer term viability of the project? How politically possible is delay and what would be its implications for the whole EMU project?

This major conference brings together key EMU players and commentators to debate the above questions and examine the political legal, financial and practical issues for Europe's businesses in the changeover period and in the longer term.

KEYNOTE ADDRESSES BY:

Eddie George Governor, Bank of England

The Rt Hon Sir Leon Brittan QC Vice President, European Commission

PLUS OVER 30 ADDITIONAL CONTRIBUTORS INCLUDING:

jean-Plerre Patat Head of Foreign Department, Banque de France

Chairman, Caspian Securities Ltd Sir lan Prosse

Chairman & Chief Executive, Bass plc

Professor Otmar Issing Chief Economist, Deutsche Bundesbank

Graham Bishop European Adviser, Salomon Brothers International Limited Christopher Haskins Chairman, Northern Foods plc

Director, institute for Public Policy Research

Dr Wolfgang Ruttenstorfer Minister of State, Federal Ministry of Finance, Austria

Economics Commentator, The Financial Times

Sir Nigel Wide KCB CVO CBE Director, International Finance, HM Treasury

Gert Jan Hogeweg Head of the Monetary, Economics and Statistics Department European Monetary Institute, Frankfurt

Professor of Economics, London Business School

Klaus Regling
Director General, Ministry of Finance, Germany

Commercial Director, DHL International UK Ltd

Head of Policy, Institute of Directors Professor Peter Davies Chief Economist, The British Petroleum Company p.l.c.

Daniel Hodson Chief Executive, LIFFE

John Townsend Deputy Director, Bank of England

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Statement of the state of the s	Chartery of marketing

## Spending surge fuels rate rise fears

By Wolfgang Münchau,

High street spending in May hit its highest growth rates since 1988, raising fears that the UK economy is on the verge of an unsustainable consumer boom.

The data gave rise to concerns that interest rates may go up sooner and to a greater degree than previously assumed, and that Mr Gordon Brown, the chancellor of the exchequer, may raise taxes in his Budget on July 2.

According to provisional data

Councils'

under fire

Large wheelie bins may

appear an efficient means of

refuse collection but are

environmentally and finan-

cially, the Audit Commis-

In a study of councils'

environmental performance,

investigates public expendi-

ture, found most have a long

way to go to achieve the tar-

gets for environmental sus-

tainability set at the Rio

earth summit five years

for their efficiency, contrib-

ute to the problem by

encouraging users to throw

more waste away rather

than recycling it, the study

says. It adds: "The increase

in tonnage collected through

large wheeled bins exceeds

the tounage recycled by

almost every council,

thereby nullifying any ini-

tial environmental or finan-

performance on environ-

mental issues is "patchy" and relatively few have

turned written strategies

Councils command almost

£5bn (\$8.15bn) a year in

spending which has an

through waste management,

transport, energy and water

use and service provision.

the commission said in its

But 83 per cent of all

waste is still buried at land-

fill sites - enough to fill

Lake Windermere, in northern England, in 18 months.

The answer, the commission argues, is smaller wheeled

bins and home composters

Sutton is praised for selling

composters at cost price and

for using bottle banks.

door-to-door paper collec-

tions and other measures in

a bid to recycle 25 per cent

of its waste by 2000. On

average, councils recycle

When seeking government

transport funds, most councils still bid for road-

building. Fewer than 20 per

cent of bids relate to public

transport, and fust over 10

more than six hours from 30

per cent to 7 per cent.

pedestrian projects.

only 5.4 per cent of waste.

for garden and food waste.

first environmental audit.

The report finds councils'

cial benefit."

into action.

Wheelie bins, introduced

sion said yesterday.

'green'

record

By Leyla Boulton and Nicholas Timmins

in London

tics, retail sales went up by an annual rate of 5.9 per cent and a monthly rate of 1.1 per cent in May. The annual increase was the largest since November 1988.

Inflation jitters were not helped by the minutes of the May 6 monetary meeting between Mr Brown and Mr Eddie George, governor of the Bank of England, the UK cen-

expressed alarm at medium-term inflation prospects. "The chancellor said that in his

At the meeting Mr Brown

inherited a situation in which, in broad money, which has recently to-May period. the absence of corrective action, inflation would overshoot its target next year", the minutes said.

Mr Brown said his concerns about inflation were based on a series of economic forecasts and developments: the rise in consumer spending, windfalls from building society flotations, the growth of gross domestic product above its trend rate, the fast rise in house prices and the recent pick-up in average earnings.

The chancellor also mentioned

expanded significantly above its monitoring range.

Yesterday's retail sales figures will add to Mr Brown's concerns. The ONS said that consumers are increasing their spending on household goods, which includes refrigerators, washing machines, furniture and hi-fl equipment. This spending pattern is seen as consistent with the strong boom in the UK housing market.

The ONS noted that there has also been a strong increase in sales previously thought".

judgment the government had the fast growth in M4, a measure of of textiles and shoes in the March-

The provisional ONS data appears at odds with the CBFs latest Distributive Trades Survey, which shows a drop in the number of retailers reporting improved sales in May.

Mr David Walton, UK economist at Goldman Sachs, said Mr Brown's comments in the minutes amounted to "a veiled hint about tax rises". He said the chances of increase in interest rates in August "looks much more likely than we

Tory foes

leadership

One of the most astonishing

political alliances was born

vesterday as Mr Kenneth

Clarke, the former Conserva-

tive chancellor, joined forces

with his erstwhile ideologi-

cal foe, Mr John Redwood, in

an 11th hour attempt to

snatch the Tory leadership

from Mr William Hague, the

former secretary for Wales.

With tempers flying on the

eve of the final round of the

contest today, both camps

claimed they had the edge.

But, with several of the par-

ty's 164 MPs refusing to

declare publicly, and others vaciliating, the result appeared too close to call.

Mr Hague's agitated team

called to arms Lady

Thatcher, who first spotted

him as a 16-year-old address-

ing the party conference in

1977. After refusing to

endorse any candidate, she

rallied behind Mr Hague,

standing beside him outside

the Commons and declaring

She had earlier denounced

as "an incredible alliance of

opposites" the deal struck

between Mr Clarke, a robust

pro-European, and Mr Red-

wood, who had led the Euro-

sceptic wing from the back-

Their pact, agreed in a

flurry of contacts late on

Tuesday after the inconclu-

sive second round, gives Mr

Redwood the position of

shadow chancellor and

allows him and all Tory MPs

a free vote on the issue of

him a man of principle.

alliance

By John Kampfner,

Chief Politics

forge

UK NEWS DIGEST

## **Action urged** on 'cool cans'

Mr Michael Meacher, the environment secretary, is to press today for tough action by the European Union to cope with a new type of self-cooling drinks can that threatens to derail international attempts to halt global

At a meeting of EU environment ministers in Luxembourg, Mr Meacher will call for an urgent study into the US-developed cans to work out their effect on the environ ment. An official at the Department of the Environment said it was too early to say whether a ban on the cans would be appropriate, although this could not be ruled out. Under Mr Meacher's plan, EU officials would liaise with the US Environmental Protection Agency to review

The cans work by releasing a chilling gas - called HFC 134a - into the atmosphere. HFC 134a has the disadvantage of having a hig impact on global warming with a more concentrated effect than the carbon dioxide which is the main cause of the greenhouse effect.

ICI, the chemical company which is among the largest makers of HFC 134a, said yesterday it wanted to ensure such gases were used appropriately. Peter Marsh, London

#### **■ MARINE SAFETY**

#### Ferry companies clash with EU

British ferry companies are locked in dispute with the European Union about new rules requiring the compila tion of passenger lists.

The Chamber of Shipping, which represents the companies, objects to the lists which it insists will cause delays without improving safety. New rules requiring the lists were agreed by the EU's Council of Transport Ministers in Luxembourg yesterday.

The regulations will be introduced in January 1999 or 2000 for all journeys of more than 20 miles. That will include all Channel crossings from England to mainland

Mr Edmund Brookes, the chamber's director of marine services, said that the ferries already had computerised counting of the number of people on board.

Total ban on asbestos sought

#### ■ ENVIRONMENTAL HEALTH

A complete ban on the import, supply and use of all forms of asbestos in the UK is to be introduced shortly by the government it was announced yesterday in the House of Commons by Ms Angela Eagle, the environment minister. She told MP's that a prohibition on the supply or use of asbestos would lead to a "significant reduction in overall risk to human health and we want to move to this with all speed".

Brown and blue asbestos have already been outawed in the UK and the European Union but white asbestos is still imported as raw fibre and as products for use in building and vehicle manufacture. About 3,500 people die every year from asbestos-related diseases, two-thirds from lung cancer brought about from an exposure to Robert Taylor, London

#### ■ MCDONALDS LIBEL TRIAL

#### Judgment due in longest action

Judgment will be given today in the McDonalds libel trial. the longest-ever legal action in the English courts. McDonalds sued two environmental activists, Ms Helen Steel and Mr David Morris, over allegations made in a leaflet published by the campaign group London Greenpeace. The allegations concerned the company's environmental track record and its business and employment practices. The two defendants are counter-suing McDonalds for having accused them of lying. The High

Court case, which began in June 1994 and lasted 313 days in court, is thought is have cost McDonalds over £10m (\$16.3m) in legal costs. John Mason, London

#### Rebuke for electricity regulator

Urgent action is required to redress the balance between the gains shareholders and consumers of electricity have received since the privatisation of the industry, according to the National Consumers Council in a report of takeovers in the industry published today.

in the sector has "lined the pockets of shareholders" but done nothing for consumers by way of lower electricity

The NCC report amounts to a powerful rebuke of Offer, the electricity regulator and is bound to add some weight to the pressure for change in the way that UK utilities are Simon Holberton, London

#### Complaints soar by 60%

Complaints to the Personal Investment Authority ombudsman soared 60 per cent last year and compens tion paid to complainants jumped 72 per cent.

of this month, also reported a 160 per cent rise in the number of cases dealt with, saying the bureau had appointed more staff and two extra ombudsman to handle

(\$7m) from £2.5m. Christopher Brown-Humes, London

## Gas price controls tightened

By Robert Corzine and Jane Martinson in London

The longest and most bitter row between part of the former British Gas and its regulator ended yesterday when the Monopolies and Mergers Commission came down firmly on the side of Ofgas's plan to slash pipeline

charges in Britain. Ms Clare Spottiswoode, the gas industry watchdog, wel-comed the MMC decision to something of a disaster both endorse tough new price controls for the Transco pipeline subsidiary of BG plc. "They backed all our the commission, which philosophical positions," she

said. BG, which will have to take a £5bn (\$8bn) accounting charge to take account of the new regulatory framework, said the result of the MMC inquiry was at the "outer bounds" of what was

acceptable. Investors reacted with relief to the end of the row. BG's shares rose 6½p, or 3 per cent, closing at 219p yesterday, bucking the downward trend in the mar-

Ofgas immediately accepted the MMC decision, which it said clears the way for big price cuts for gas consumers, possibly as early as October.

Ms Spottiswoode said 19m domestic consumers could expect a one-off cut of £29 from an average bill of £325. Additional annual reductions should bring down gas bills by £54 a year by the fifth and final year of the impact on the environment

price formula period. Commercial and industrial gas bills fall by between five and seven per cent over the

Centrica, the But demerged half of the old British Gas that supplies the majority of households, said it was too early to put an exact figure on any reduction, while Ms Spottiswoode later admitted that the £29 figure was a "rough calcula-

Although the MMC made

#### Industry watchdog welcomes move which promises cuts for consumers

some concessions to BG in its findings, there was no doubt that Ofgas had won a big victory over the com-pany, which last year called the proposals "the biggest smash and grab raid" in UK corporate history. The MMC reversed its own 1993 findings to back her central proposal on the value of Transco's asset base.

Ms Spottiswoode said the result was "really good for customers and not bad for shareholders". But BG work-Unison, one of the main unions for BG workers, said quarter of the Transco workforce may have to go. BG has already cut 4,500 jobs since January 1996, reducing the Transco workforce to



Position endorsed: Clare Spottiswoode of Ofgas yesterday

not confirm the 4,000 figure, though she acknowledged ers are likely to be hit hard. last night that "there will be more redundancies". Mr David Varney, BG's chief Ofgas had suggested that a executive, would not be drawn on possible job loses, but said the company will be "looking at all our costs".

BG executives dismissed suggestions by Ofgas offi-

Mr Spottiswoode would the MMC had left the company £200m worse off than had they accepted the regulator's proposals last Sep-

Mr Varney said he had "no regrets" that the matter had gone to the MMC. The company would make the same decision today, he said. Even Ms Spottiswoode said BG's decision to appeal "was a

#### Spain may challenge proposed licence restrictions in EU court

## Anger at quota-hopping claims

in London, David White in Madrid and Neil Buckley

a mixture of anger and dishad made progress with Brussels over plans to tackle hopping"

per cent are for cycling and The report praises Oxford for implementing driving restrictions, park-and-ride schemes and improved public transport and cycling facilities. This has helped ish and Dutch owners. cut the proportion of vehicles entering the city for

The London borough of in Brussels

Spain yesterday reacted with dain to British claims that it the fisheries issue of "quota

Mr Jack Cunningham, the agriculture minister, claimed that Britain had secured a "constructive outcome" in talks with the European Commission over measures to tie fishing vessels more closely to their flag country.

Britain would now plan to introduce new licence conditions "as swiftly as possible" on all boats fishing under UK quotas, including an estimated 160 boats with Span-But Spain said it knew nothing of any new agree-

licence restrictions in the European Court. Mr Tony Blair, the prime

minister, and Mr Jacques Santer, EU president, had been in close contact in the run-up to the Amsterdam summit in a search for progress on the quota-hopper In the event, the UK failed

to get quota hopping included in either the Amsterdam treaty, or separate summit conclusions. Spain is understood to have insisted the issue should not be discussed in the main summit sessions or be mentioned in the documents.

Instead, Britain yesterday published an exchange of letters between Mr Blair and Mr Santer, in which they agreed measures Britain might take to improve the economic links between fishing boats and the flag state. ment between Brussels and Mr Santer said measures London, and suggested that could include a requirement

that a specified proportion of impact at all on quota hopcatch should be landed in pers, they will be overturned the home port; Denmark in the European Court." specifies the proportion should be 50 per cent.

Other provisions could include demands that the majority of fishing trips should start in the home state, or that a majority of the crew should normally reside in the home state.

Mr Cunningham said Britain would hope to introduce one or more of those conditions as quickly as possible. He also said the Commission had agreed to police fisheries law more effectively.

way forward with the Commission, we are in a much better position to avoid legal challenge to the measures we adopt," he said.

Mr Tony Baldry, fisheries spokesman for the opposition Conservative party, said

the deal was a "sell out".

A Spanish foreign ministry

spokesman said the government had received no direct information of the content of the exchanged letters. But he added that fishermen's rights to operate with

UK registered vessels had been "clearly backed" on several occasions by the European Court of Justice. "I know the value a letter has in community law compared to a court ruling," he said. In the House of Commons yesterday, Mr John Major, the former Conservative prime minister, laid into Mr Blair's handling of the Amsterdam summit in which he described as "not a triumph but a travesty". Mr Blair dismissed the attack as a "good try" and paid tribute to the "very good nature and dignity" which Mr Major had

shown in previous Commons

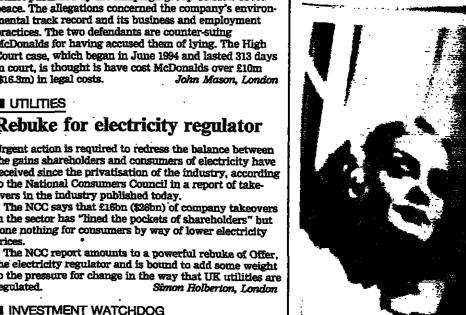
economic and monetary Sir Peter Tapsell, a Hague supporter and veteran MP, called the deal "one of the most contemptible and discreditable actions by a senior British politician I

years in the Commons". One of Mr Hague's senior aides called it a "Faustian pact", adding: "We are looking at complete and utter meltdown of the party if this unholy alliance wins the day." Both teams spent the day

can recall during my 38

in frantic attempts to woo the 38 MPs who had opted for Mr Redwood on Tuesday. Initial readings suggested that vote was splintering almost evenly - leaving open the possibility of a tie. Mr Hague responded to the Clarke-Redwood challenge with an accomplished performance late in the day. He said he would not know just how many Redwood supporters had switched to him until voting tomorrow.

"There are no blocks of votes in these matters," he



#### **■ INVESTMENT WATCHDOG**

Mr Stephen Edell, who retires as ombudsman at the end

A total of 4,310 complaints were received and 3,375 cases completed. Firms were found to be wholly or partly at fault in 47 per cent of cases. Compensation rose to £4.3m



Sam Chisholm - " a terrific leader", says Rupert Murdoch

## Satellite TV venture sees change at the top Raymond Snoddy assesses the career of Sam Chisholm, chief of British Sky Broadcasting

r Sam Chisholm, chief about it [retiring] for about a nel and was in charge of the teleexecutive for nearly seven years of British I've got to do it'." Sky Broadcasting, the satellite television venture, has announced he is stepping down at the end of this year because of

gering his health. Mr Chisholm, aged 57, has been suffering from serious asthma following a history of heavy smoking. He will be replaced by Mr Mark Booth, a 40-year old American who has considerable experience of the IIK media.

Mr Chisholm came to the UK from Australia in September 1990 to take control of the newly merged British Satellite Broadcasting and Sky, when the combined group was losing £14m (\$22.82m) a week. He now presides over a company with a market capitalisation of £10bn. Mr Rupert Murdoch, chairman

has a 40 per cent stake in B\$kyB,

year until he finally said Look, A small man with a large, witty, but often ferocious pres-

ence, Mr Chisholm had been called an Australian James Cagney, although he is in fact a New Zealander. He has battled on against a scale of illness which, it is believed, would have forced most people to stop work. He will remain a non-executive

director of BSkyB and will have a consultancy with the company for at least two years. He will receive a lucrative parting package, involving two years' salary and share options. He has a relatively modest salary of just under £300,000, but when he joined BSkyB negotiated a package that ensured he would be paid 0.5 per cent of profits. In the year to last June BSkyB had pre-tax profits of £257m on a turnover of £1bn.

Mr Booth, Mr Chisholm's suc-

cessor, launched the European

ously strong candidate to succeed Mr Chisholm - his deputy Mr David Chance - had ruled himself out of the succession. Mr Chance has also been ill recently and is expected to leave at the

as a consultant.

end of the year, while remaining

Japanese satellite television.

r Murdoch praised Mr Chisholm as "a brilliant executive" who had pushed BSkyB forward. "Sam is a terrific leader," he said. "He gets the best out of people, sometimes by inspiration, sometimes by terror. He is a strict believer in the carrot and the stick, perhaps a bit more of the stick than the carrot." Mr

Murdoch came to London for the retirement amouncement. Mr Chisholm's 8.30am Monday

vision interests of the late Robwhich he would often rant about ert Maxwell. He is chief operatthe total incompetence of "the ing officer of JSkyB, News Corp's Poms" [the British] and the impossibility of the British tele-Mr Murdoch said that an obvivision environment. This was largely an elaborate

senior managers were a closely stayed with the company, with the exception of Mr Kelvin Mac-Kenzie, the former editor of The Sun newspaper, who resigned after six months and many battles with Mr Chisholm.

It was Mr Chisholm who negotiated BSkyB's all-important live coverage on Sunday afternoons and Monday evenings. The [aerial] sales as nothing else could. The number of homes taking BSkyB through dishes or cable in the UK and Ireland has topped more than 6m.

But perhaps his greatest

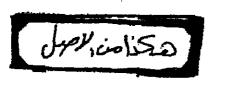
notorious occasions during bit by bit a complex industry ent on the introduction of digital satellite television.

Almost as important was an agreement between BSkyB, BT, the Midland Bank and Matsushita to found British Interactive theatrical game. The BSkyB Broadcasting - a consortium which will launch services such knit team and most of them as home shopping and banking next summer and subsidise the "blackbox" decoders which can handle 200 TV channels.

As Mr Booth gets to grips with the difficult task of implementing both projects next year, Mr Chisholm will be spending more time in Australia. Last year, he deal with the English football bought a ranch within 50 miles Premier League for exclusive of the Murdoch family and a

house in Sydney. Soon after he took over at deal, since renewed, drove dish BSkyB a journalist told Mr Chisholm he had discovered his secret. "What is that?" asked a startled Mr Chisholm. "You are not nearly such a bastard as you let people think."

"Please don't tell anyone." Mr said: "He has been talking to me version of the MTV music chan-management meetings became achievement was to chisel out Chisbolm replied with a smile.



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Cinema/Nigel Andrews

## Dubious shot at troubled history

you make a film about history is changing by the sec-

dyism between an IRA arms runner (Brad Pitt with flawless accent) and the initially unsuspecting American policeman and family man (Harrison Ford) with whom he stays while preparing to buy and smuggle out Stinger missiles. Here is a New York bursting with Irish-Americans who seldom seem up to the minnte, or hour or day, on what is actually happening in Ireland. (The film was shot during the on/ off peace process). And here is a director, Alan J. Pakula of Khute and All The President's Men, whose sombre humanism can bland out with a poor script – by three writers including Kevin Jarre, who conceived the story into political scap opera.

"If you're not confused, you

don't know what's going on," says Pitt of the Troubles. Too true; though that is no licence to baffle the audience. It is never clear what Ireland Pitt has come from or is going back to, nor whether the film sees his Republican activism as saintly heroics or the irrational by-product of a childhood trauma (at eight he saw his Dad shot by Brits), nor why, by all that's Irish, he chooses the home of a non-IRAsympathising cop for a "safe house".

The actor reportedly went dying too. near-ballistic as the shooting/rewriting schedule stretched on to accommodate each fresh newsbreak from Ireland. On screen he and Harrison Ford have fair surprisingly assured and chemistry, although Pitt's luminous, golden-haired Christ figure seems to have been lit by a differ- are high on charisma and courent cameraman from the one who exposes to cold daylight Ford's survive lines like that of Keaton greyer, more leathered features. That the great cinematographer Gordon Willis (The Godfather, Annie Hall) lit both men is not clear incredulity Woody Allen the least of the film's troubling. anomalous surprises.

Keep your wits about you if you will hardly have opened the door

he Devil's Own went cry. as it were, "Surprise!": the says Julie Walters as only she through the torments surprise being that two heavyproduction. How do in a bantamweight comedyweepie. They will then hand you contemporary history when that a free box of tissues, or they should, for this tearful tale of two sisters based on a stage play by

Here is a tale of love-hate bud-Aids victim Scott McPherson. Summoned by family crisis, the selfish Streep re-bonds with the caring Keaton over the deathbed of their father Hume Cronyn. Meanwhile Streep's "troubled" teenage son Leonardo DiCaprio behaves like John McEnroe on a bad tennis day, at least until Doc-

> THE DEVIL'S OWN Alan J. Pakula

MARVIN'S ROOM Jerry Zaks

INTIMATE RELATIONS Philip Goodhew

KAMA SUTRA Mira Nair THE CHAMBER

James Foley

PRIVATE PARTS **Betty Thomas** 

tor Robert De Niro persuades him to give a blood sample to save the bone-marrow-needy Keaton. For she, yes. (it is that kind of film) is

The emotion is soon up around the filmgoer's ankles, then his knees. Best. though, to surrender to submersion. The direction is unblenching, the "big scenes" are persuasive, and the performances age: especially since they must to Streep, "My feelings for you are like a big bowl of fish-hooks." One pictures the look of near-nuwould have given if she had ever said that in Annie Hall

From Britain, Intimate Relations is another family saga, this venture into Marvin's Room. You time a blend of Entertaining Mr Sloane with Pasolini's Theorem. before the light goes on and "My husband and I keep separate Meryl Streep and Diane Keaton rooms for medical purposes,"

of the damned during weight actresses have been cast nity. She is explaining domestic life to her new lodger Rupert Graves, and there is much to be explained. Her husband polishes his wooden leg at the breakfast table, the dog (male) is called Margaret Rose, and the daughter whines "It's my birthday!" when the lodger and landlady, freshly bedded down, tell her she cannot climb in with them between the

> inexplicably and unforgivably, this truth-based 1950s-set story ceases to be funny half way through, somewhere around the axe attack scene at the picnic. By then Walters has become a fully-fledged Phaedra, Graves is seeking sporadic refuge in military service, and first-time writer-director Philip Goodhew has little more idea than we how the new melodrama of mad passion is supposed to fit with the old comedy of mad manners.

> Mira Nair's Kama Sutra has shocked India with its frank picture of men and women kissing. They seldom venture further in this demure adaptation of the great religious book we all know: the one that always seems to be inexplicably better-thumbed than the Bible.

> The maker of Salaam Bombay! and Mississippi Masala has a talent for local colour but little else. The visuals are gorgeous, a riot of rainbow clothes and veils and jewelled palaces. But the colours flatter and end up flattening Nair's attempt at a three-dimensional drama. The maidservant and princess raised as sisters (Indira Varma, Sarita Choudhury) who go on to fight over two men, a prince and an artist-commoner, experience in theory every variety of love from the chastely poetic to the passionately carnal. But it is hard to tell one from another in a film where all is seamless chromatic razzle, accompanied by archly antique'd dialogue.

The Chamber, based on the John Grisham novel, is a workout for the human conscience. No whodunnit plot, no courtroom callisthenics, just the tale of a young lawyer (Chris O'Donnell) seeking a chink of reprievable virtue in his grizzled Klansman grandfather (Gene Hackman), condemned to the gas chamber for murdering a black man.



A tale of love-hate buddyism: Brad Pitt as an IRA arms runner in 'The Devil's Own'

it is dead men talking. The action alcohol-bingeing daughter, it is is nudged forward by speeches. The speeches are nudged forward rather than illumination. by logorrhoea-dazed actors who never quite transform themselves from type.

Hackman lost 30 pounds to incarnate the Death Row cast-away but still looks and sounds diet. The puppy-dog charm that phy. Chris O'Donnell brought to

the light of histrionic madness

She would be a treat in Private Parts. The infamous American radiocaster Howard Stern, who insults his guests, tells disgusting jokes and all but has sex on the air, bestrides this timid comlike Hackman: Popeye Doyle on a edy based on his own autobiogra-

Where is the political incorrectplaying Ernest Hemingway is all ness? Where is the appalling, as he brings here. And though Faye distinct from merely bad, taste?

The film is honourable and lib- Dunaway lights up the screen in Instead we have "Good Morning, eral, but after Dead Man Walking brief appearances as Hackman's Manhattan" with a seven-foot, Jewish, tumble-haired Robin Williams substitute wowing the listeners and ritualistically outraging the radio bosses. Though there are glimmers of the true, scabrous Howard Stern - "Is it pronounced Monaco, or Mon-ah-co? Well, anyway, she's dead" is his news summary of Princess Grace's demise - they stay glimmers. The film does for Stern what Blue Peter might do for Bernard Manning.

Concerts

#### A happy mix of old and new

he world's number-oneselling conductor, according to the record charts, does not appear that often in London to give a standard orchestral concert. John Eliot Gardiner works regularly with his two period bands, the English Baroque Soloists and the Orchestre Revolutionnaire et Romantique, but his dates with London's symphony orchestras are few and far between.

So far, the ration has been one a season with the Philharmonia. But on Tuesday Gardiner started up a new association by stepping on to the podium in front of the London Symphony Orchestra, the first of two concerts at the Barbican: it was an orchestral speciacular, pairing Stravinsky's Firebird in the first half with Berlioz's Symphonie fantastique in the second. On Sunday he conducts a concert performance of Stravinsky's The Rake's Progress.

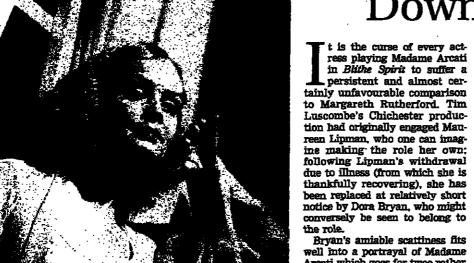
It is not such a long way from the Monteverdi and Purcell of Gardiner's early years to Stravinsky as it may seem. The athleticism and clarity that "period" conductors like Gardiner instilled into early music come in handy when facing a brilliant 20th-century ballet score. If anything, some of the speeds in The Firebird were too fast, but this was a fleet, supple and light-textured performance at least until the last couple of minutes. Then Gardiner unexpectedly put on the brakes and turned the final peroration into the dogmatic series of slow, grinding chords that we know Stravinsky disliked.

The Symphonic fantastique was a fairly spectacular showpiece: not controversial, as one might have expected after Gardiner's period-instrument performances, but an impressive piece of highly-disciplined orchestral playing. It cannot just be the re-seating of the orchestra, with first violins to the left and seconds to the right, that made the difference. The LSO's string sound here was well-kutt and ensemble exact. It was fascinating to compare this Berlioz with Simon Rattle and the Vienna Philharmonic two months ago: Rattle was so wild. seeing hallucinatory visions in every bar, while Gardiner presented us with a cogently-argued symphony - the opposite outcome to what one might have

Meanwhile, on the fringes of the City of London the Spitalfields Festival is putting forward an imaginative programme, featuring its usual mix of early and new music. Last week I caught its most important premiere, the first performance of Judith Weir's Piano Concerto. At barely a quarter-of-an-hour's music, this was Weir at her most typible and audible only to her huscally concise. Marvellously imaginative ideas, like the opening simpering when Elvira hands her piano flourishes flitting high in its register against hanging string chords, are snatched away almost before they have time to make an effect. Developing those ideas is not her strong point. But the pastoral slow movement and finale, with its mock-Rachmaninov big tune (tongue in cheek at this point, I suspect), work well in their miniaturist way. Weir's style demands precision playing and the BT Scottish Ensemble. with William Howard as the planist, did not let her down.

> Richard Fairman LSO concert sponsored by JVC.

## Down-to-earth spirit of Noël



Twiggy: a vision in diaphanous white as Elivra

following Lipman's withdrawal due to illness (from which she is thankfully recovering), she has been replaced at relatively short notice by Dora Bryan, who might conversely be seen to belong to

was for her comical ungirding of Belinda Lang as Ruth, make a able indeed: the cross-purposed

t is the curse of every act- herself from her bicycling rig - fine Cowardian couple, evenly exchange in Act I between ress playing Madame Arcati but, whether through pressures matched in terms of verbal fenc- Charles, Ruth and an Elvira visiin Bitthe Spirit to suffer a of time or other factors, she is a ing skills but neither so poised as little too scatty as regards lines; tainly unfavourable comparison at times it almost seems as if her exercise. to Margareth Rutherford. Tim next phrase is to be whispered to her by a prompting spirit, or to cucumber sandwich.

Overall, Luscombe concentrates on maximising the enterthat the sudden ghostly reappearmight make for rather a lot of Arcati which goes for twee rather fun, there is nary a hint of ethethan robust eccentricity - the ric troilism. Steven Pacey as loudest applause of the evening Charles, and even more so of the production are very enjoy-

to turn matters into a formal Twiggy Lawson as Elvira is a

vision in diaphanous white who be ingested along with the next alternately sashays around the stage and clumps across it (this is one ghost whose footsteps are decidely audible). She manages to tainment of Noël Coward's com- combine a delightful and generedy rather than uncovering its ally un-puckish playfulness with hidden depths: when, for a paradoxically down-to-earth instance, Charles Condomine directness, conveying a greater hints to his second wife Ruth breadth of character than the contentedly circumscribed Ruth ance of his former spouse Elvira and thus furnishing more reasons than simple physical attractiveness for the latter's jealousy. The most enjoyable moments

anything: even the final-act scene-change when both Elvira and the now deceased Ruth "haunt" the stagehands. Illusions are discreetly but effectively designed by Paul Kieve, a man whose theatrical credits are almost as ubiquitous as rostrum cameraman Ken Morse's in television. At almost three hours (including two intervals) it ought to feel

band; Madame Arcati's excited

overlong, but things are kept simmering more than agreeably enough to dispel such cavils.

Chichester Festival Theatre until August 3 (01243 781312).

# INTERNATIONAL

#### AMSTERDAM

CONCERT Concertgebouw Tel: 31-20-5730573 Koninklijk Filharmonisch Orkest van Vlaanderen: with conductor Grant Liewellyn and mezzo-soprano Katarina Karnéus in works by Berlioz and Mendelssohn; Jun 22

#### ■ ATHENS

DANCE Odeon Herodus Atticus Bailet Nacional de España: performs Bolero choreographed by Granero to music by Ravel, Danza y Tronio choreographed by Mariemma to music by Soler. Boccherini and Abril, La Gitanilla choreographed by Granero to music by Abril and Japateado choreographed by Sanchez to music by Sarasate; Jun 19, 20

**BERLIN** Konzerthaus Berlin

Tel: 49-30-203090 Symphony No.5: by Mahler. Conducted by Sergiu Commissiona, performed by the Berliner Sinfonie-Orchester, Jun 21, 22, 23

**EXHIBITION** Museum für Ostasiatische Kunst Tel: 49-30-8301382 Haiga und Haiku: display of sketches and poems by Takebe Sôchô from the collection of Shôzaburô Masuda, Tokyo;

to Jul 20

CARDIFF CONCERT St. David's Hall Tel: 44-1222 878444 Cardiff Singer of the World Final: with conductor Graeme Jenkins and the BBC National Orchestra of Wales. Grand final of

the annual week-long competition,

featuring entries from as far afield

as Venezuela and China; Jun 21

**■ CHICAGO** EXHIBITION Art institute of Chicago Tel: 1-312-4433600 Michelangelo and His Influence: Drawings from Windsor Castle, Exhibition examining examples of Michelangelo's draftsmanship and demonstrating his impact on contemporaries and

LONDON EXHIBITION National Portrait Gallery Tel: 44-171-3060055

successors; to Jun 22

• The Pursuit of Beauty: exhibition examining changing notions of beauty. The display has interactive elements, including the opportunity for visitors to try on top hats, wigs, corsets and doublets. A number of portraits from the NPG's collection will be exhibited: to Sep 7 Victoria & Albert Museum

Tel: 44-171-9388500 Chairs for a Purpose: the inventiveness of 18th- and 19th-century chair-makers is explored in this display which shows chairs made for a specific purpose or for particular rooms; to Jul 15

**■ LOS ANGELES** EXHIBITION **MOCA at California Plaza** 

Tel: 1-213-626-6222 ● Toba Khedoori: the first one-person museum showing of the work of this Los Angeles artist. Khedoori's paintings, executed in oil and wax on paper, present reductive, fragmentary images within vast expanses of luminous, textured surfaces; to Jul 13

**LYON** DANCE

Opéra National de Lyon Tel: 33-4-72 00 45 00 Ballet de l'Opéra de Lyon: performs Petrouchka choreographed by Nadj and Concerto choreographed by Schlömer to music by Stravinsky; Jun 20, 22

EXHIBITION

Musée des Beaux-Arts de Lyon Tel: 33-4-72 10 17 40 Un combat pour l'art moderne, hommage à René Deroudille: display paying tribute to the 1930s art critic and featuring 80 works selected from the museum's collection, including works by Léger, Dubuffet, Villon, Picasso and Benrath; to Aug 17

■ MANCHESTER EXHIBITION

The Whitworth Art Gallery Tel: 44-161-275 7450 Sean Scully - Works on Paper: display of work by the Dublin-born contemporary abstract painter, concentrating on his watercolours, pastels, collages and drawings of the past 15 years; to Aug 25

**■ MONTPELLIER** FESTIVAL

Festival International Montpellier Danse Tel: 33-67 60 83 60 Montpellier Danse 97: this year's international modern dence festival includes performances by the Moscow Dance Academy, the Twyla Tharp Dance Company and the Columbian Ballet. Opening the festival is the Spanish Antonio Gadès, performing Carmen, choreographed by Gades and Saura to music by Bizet, Gadès, Solera and Freire; from Jun 22 to

**■ MUNICH** EXHIBITION Haus der Kunst

Tel: 49-89-211270 Michail Wrubel und der russische Jugendstil: the first display of work by this key figure ian Symbolism to be held in the West features more than 30 oil paintings, 150 works on paper, 20 ceramics and a group of sculptures; to Jul 30

■ NEW YORK EXHIBITION The Pierpont Morgan Library

Tel: 1-212-685-0008 An Eye for Beauty: The Alice Tully Collection: display of 70 works, including pieces by Raphael, Tiepolo, Natoire, Turner, Manet, Cézanne, Barye and Guardi. The collection also features a selection of musical manuscripts, including two by Robert Schumann; to Aug 31

JAZZ & BLUES Carnegie Hali Tel: 1-212-247-7800 Rachelle Ferreil: performance by the singer, accompanied by saxophonist Ronnie Laws and the Gonzalo Rubalcaba Trio; Jun 21

**■ PARIS** AUCTION Drougt Tel: 33-1-48 00 20 42 De Claudel a Rodin; sale of sculptures and paintings, with highlights including two busts by

**■ STRASBOURG** EXHIBITION Musée Art Moderne Ancienne

Rodin: Jun 20

Douane Tel: 33-388 32 48 95 Itinéraire d'une Passion: exhibition paying tribute to the art collectors Othon Kaufmann and Francois Schlageter, including works by Giambattista Tiepolo Anton van Dyck, Cavallino and Canaletto; to Aug 31

■ VIENNA EXHIBITION Museum für Angewandte Kunst Tel: 43-1-71136

 Wilhelm Scherubl: der Kreis der Sonnen: installation by the contemporary sculptor, which can be seen on the museum's front terrace, featuring a number of strategically placed buckets; to

**JAZZ & BLUES** Konzerthaus Tel: 43-1-7121211 Axel Zwingenberger, Tibor Grasser and Frank Muschalle: the three pianists play a selection of 1930s jazz; Jun 20

**ZURICH** OPERA Opernhaus Zürich

Tel: 41-1-268 6666 Die Entführung aus dem Serail: by Mozart. Conducted by Adam Fischer, performed by the Zürcher Oper. Soloists include Elizabeth Magnuson, Malin Hartellus and Roberto Saccà: Jun 21

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Economic Viewpoint · Samuel Brittan

## Too many weasel words

Flexibility is an evasive term used by the Euro-establishment to avoid saying that excessive pay costs can often price workers out of employment

than literal reductions.

Baroness Thatcher once

asked me if I thought it was

all right to refer to labour

costs as the key to jobs.

Around a lunch table I had

to respond weakly: "Not

for reflection, I will put it

this way. If pay is too high,

employers may respond by

labour-saving investment.

This raises productivity in

the crude sense of output

reduce labour costs. But it

does not stop employment

being reduced. Indeed it is

part of the process.

Nevertheless, if we are to look at national statistics

for even partial illumination

we have to take unit labour

costs as better than nothing.

costs in manufacturing.

measured in a common cur-

rency, have fallen in the UK

in the 1990s relative to some

principal trading partners;

In European discussions flexibility should not be about how to reduce unemmanagement-speak for ployment British spokesmen lower wages"; but somehave made much of the slogan of "flexibility". This is in contrast to the French times it is and should be, Mr Ferguson. The Unilever chairman even made popuemphasis on more expanlist references to "sending sionary financial policies 10-year-old boys down chimand make-work infrastrucneys", attacked "less scruture projects. The British pulous businesses" that brief has hardly changed exploited workers and hit at between the outgoing gov-ernment of Mr John Major the "hire and fire" culture of some US businesses. and the incoming administration of Mr Tony Blair. Business leaders throughout

Europe and further afield wholeheartedly embrace the But what on earth does it mean? Flexibility of what? Earlier attacks were on "rigidities". So, presumably, flexibility means the absence of rigidities. How can we break out of this cir-Yet are not social security

cle of tautologies? An attempt was made on June 12 by Mr Niall FitzGerald, chairman of Unilever, in an address entitled "Tomorrow's Europe". But even he did not face up to the central issue. He said flexibility "means flexible working patterns, the ready availability of workers with the right skills, and - crucially - a less rigid labour post-tax value of wages will market, with lower social

costs and less regulation". Mr Ferguson gave an example of rigidity and regulation. "In France, regrettable but necessary decisions to close plants lead to court cases and unnecessary long delays - of over a year in the case of one Unilever plant. We would prefer to spend that time working with staff to help them find alternative work and offer-ing advice and help on retraining." The logic is that such cumbersome redundancy proceedings although intended to protect jobs - actually destroy them because they make employers hesitant to take on

But are there not levels of pay itself which would discourage job creation just as much? Mr Ferguson went social overheads were

He did not explicitly deny that the price of labour affects the demand for it. But the only kinds of costs where he was prepared to ask for flexibility were those which are not called wages. Social security charges were a favourite example of his as of many other European

charges meant to pay for benefits or services in kind? There are endless arguments as to whether wageearners get value for money. But presumably the benefits are worth a good deal more than zero. If governments remit social charges they must raise other taxes or cut some government spending. In either case the real

Much is rightly made of cult to isolate the influence

slashed, other taxes raised and public spending curbed. But the key point is that the unions agreed not to try to raise pay in compensation. Indeed gross real wages fell over five years. Such a deal was still just possible in a small consensus-minded economy like that of the Netherlands. It is indeed difficult to

state accurately the relation between employment and pay. Some workers are almost certainly being paid too little to clear the labour market - for instance good science teachers. It is also true that, if a worker's skills or attitudes can be improved, he or she will be worth more. So, in order to avoid scoring own-goals, economists are tempted to use jargon such as "bringing pay nearer to market-

clearing levels". I shall talk of "pay costs". There are many different economic forces which The chart shows that labour affect unemployment. Variations in pay costs - as with other prices - simply help to clear the market, taking other variables as they are rather than as we would like them to be. So it is diffi-

and the UK also has a better jobs record. The key to the good British performance was unfortunately neither pay moderation nor productivity Unit labour costs (manufacturing) growth but sterling depreciation, following the country's departure from the Exchange Rate Mechanism. In the latest period (not covered by the chart) sterling has recovered to where it

was before leaving the ERM. Employment could nevertheless still continue to advance in the UK. Optimistically this could happen through induced improvements in performance, quality, salesmanship and so on, or, less attractively, through an eventual drop in the pound, a squeeze on manufacturing pay or perhaps through an expansion in the non-manufacturing threequarters of the economy of course it is pumped.

out of his way to say that the Dutch example where of pay costs on their own. which is also the part where This is especially true in pay is most variable. econometric exercises which What do we do about

workers whose market pay usually deal with large aggregates. Moreover, in a is not enough to provide a dynamic economy pay reasonable standard of living for themselves and their restraint can take the form of forgoing increases rather families? In Viewpoint (April 10) I suggested that the slogan should not be "welfare to work" but welfare and work. Labour's four proposals, to be paid for by the windfall tax on utilities, implicitly recognise both really." But, with more time the relation between pay costs and jobs and the need for in-work top-ups. The hope is that by increasing people's employability the cost to the rest of us will prove limited and tempoper head and thus may

People under 25, unemployed for more than six months, will have a choice of a private sector job with a £60 subsidy per week for the employer for six months; "benefit plus" employment in the volumtary sector for a similar period; a job with an environmental task force or full-time study.

The first option is a straightforward pricing-intowork device, with a top-up paid to the employer rather than the employee. The second and third options consist of a subsidy to chosen sectors to take on extra workers at what is likely to be less than the prevailing average wage for the age group. The final educational option is an attempt to raise young people's value in the labour market by a period of

They all depend on opposite reasoning to the minimum wage proposals and may in part offset the unemployment which that wage would otherwise create. But I am afraid that neither new Labour nor the whole Euro-establishment will persuade me that the

demand for labour is insensitive to pay costs. Nor will they persuade me that water runs uphill - unless

**BOOK REVIEW** · Chrystia Freeland

KREMLIN CAPITALISM: the Privatization of the Russian Economy By Joseph Blasi, Maya Kroumova and Douglas Kruse Cornell University Press \$42.50 (hb) \$16.95 (pb) 249pp

## Bleak answer to Russia's riddle

description of lin as a riddle wrapped in a mystery inside an enigma might have been coined to describe the post-Soviet Rus-

sian economy. More than six years after President Boris Yeltsin and his young team of reformers took on the mammoth task of transforming the world's first communist economy into a capitalist one, the jury is still out on the success of their efforts. Optimists point to Moscow's giddily rising stock market, the transfer of 80 per cent of industrial enterprises mainly into private hands, relatively low inflation and a stable currency as proof that Russia is

But pessimists marshal an equally impressive arsenal. The Russian economy. which began to shrink in the late 1980s, has continued to contract. Massive wage and pension arrears - which have impoverished millions of Russians - are mounting. The Kremlin's gung-ho reform squad has been forced, yet again, to postpone its promise of economic recovery, saying growth will begin only next year.

on the verge of an economic

Joseph Blasi, a US economist, and two research associates have joined the debate. Their book judges Russia's transformation on the basis of a thorough survey of Russian companies. As one of the idealistic western economists brought in to advise the Kremlin on privatisation in 1992, Blasi might be expected to be on the side of Russia's cheerleaders. Instead, after pages of ponderous prose and an eyeblurring stack of charts and

tables, he delivers a bleak verdict. On the evidence of their ing. Even more grimly, Blasi least a quarter of those companies should be bankrupt.

Although they sympathise with the goals and the architects of Russia's mass-privatisation drive, the authors believe that privatisation has barely begun to achieve what must be its central goal - stimulating companies to produce more goods more effectively for an increasing number of consumers. Worse still, their bleak conclusion is that, when the great mass of Russian companies attempts this transformation, a significant number

The obvious question is why mass privatisation, a heroic effort, has been so slow to hear fruit. Blasi and his colleagues say one of the reasons is the highly unfavourable environment into which Russia's private sector was born. The authors particularly harsh with Mr Mikhail Gorbachev, the former president. They say his failure to begin gradual market reforms in the 1980s deprived the country of the crucial head start which has made the capitalist transformation easier in countries such as Poland, Hungary

and China. They also criticise western governments and aid organi-sations for their "laser beam" focus on privatisation, arguing that insufficient attention was paid to the institutional transformations required to make Russia's newly privatised companies viable. Many reformers were tempted by the simplistic idea that private property is all it takes to make a market economy. The book offers a useful cau-

tion against this. Blasi and his colleagues

Winston nearly 1,000 companies, the human capital in Russia and Churchill's authors conclude that a see the deeply ingrained depressing three-quarters Soviet-era attitudes of the Stalin's Krem- still need radical restructur- nation's managerial class as another brake on corporate and his comrades say at restructuring. That is certainly true, but it would also be wrong to underestimate the alacrity with which millions of Russians have adapted to the profit motive. as Moscow's boutiques and the sharp businessmen who

shop there demonstrate. The problem for the Russian economy is that for the past six years the richest rewards have been available to insiders able to extract cheap credits, cheap commodities or cheap companies from the government, not to managers willing to take on the painstaking task of restructuring Russia's rusting indus-

trial behemoths. The optimists hope this is changing, and in Russia's gradually improving business climate they see reason to believe that Blasi's researchers will encounter more cheering responses in future. The new liberal reform team in the Russian cabinet has vowed to end the sweetheart deals with friendly banks that made it more profitable to lobby the government than to reshape the economy

president can sustain the political will to push ahead with these promising initiatives, for Russia's devasted industrial heartland, the hardest part is yet to come as inefficient companies are forced into bankruptcy. Surviving that could be the biggest challenge Russian reformers have yet faced. But it is Russia's only chance of turning capitalism into something more than a

Kremlin Capitalism is available from FT Bookshop by ringing FreeCall 0500 500 635 (UK) or +44 181 324 5511 (outsurvey, which has studied also lament the dearth of side the UK). Free p&p in UK

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FINANCIAL TIMES

No FT, no comment.

## ·LETTERS TO THE EDITOR·

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#### Fear that motivated Germany on stability pact penalties

From Mr Carl Lankowski. Sir, Further to the Emu discussion, fear of a coalition of deficit countries is what motivated Germany to argue for automaticity of penalties in the stability pact. Unfortunately, the underlying problem is not addressed in this way. Elimination of market rigidities implies adjustments that may be

intolerable in the short term.

From Mrs Glenys Kinnock

Sir, It is indeed welcome

Commission has appealed to

the World Trade Organisa-

the EU banana regime dis-

criminates against Latin

American bananas ("EU

ruling", June 12).

tion against the ruling that

appeals against WTO banana

The complaint was lodged

by the US, which has never,

banana, along with Chiquita

and other Latin American

producers. The legalities of

been called into question by

the Commission and concern

the situation have rightly

in fact, exported a single

news that the European

politically to allow Emu to

If deficits are ruled out, there is no getting around the need to contemplate better forms - and perhaps larger amounts - of EU-level inter-regional financial transfers to help absorb the shocks and ease adjustments. In doubling its lend-

has been expressed about the fact that the Caribbean

access to comparable legal

support at the panel hearing.

The injustice of the situa-

tion is clear to all of us who

Caribbean islands, which

severely threatened if the

know that the security of the

depends on the crop, will be

adjudication is upheld. They

will then be unable to com-

pete with bananas from the

large plantations of Latin

President Clinton has

concerned to protect the

described the banana regime

as a "European cartel". You

have to ask why the US is so

America.

producers were denied

ing in only 10 years, the European Investment Bank is clearly already part of the equation here. Large onbudget measures may also be necessary.

Carl Lankowski. research director. American Institute for Contemporary German Studies,

1400 16th St., NW. Washington DC 20036, US

#### Injustice of bananas ruling clear to see

interests of the banana multinationals. Can it be because of the funding the Democrats' campaign patented energy saving received from the Head of Chiquita Brands Carl Lindner? Maybe it is cynical to suggest that altruism took second place when the decision to complain to the WTO was taken. Maybe a night in

received from Carl Lindner Glenys Kinnock. European parliament, 97 rue Belliard,

Brussels B-1047.

Lincoln's bedroom was

the support which was

insufficient recompense for

From Mr David Nathasingh Sir, On June 4 you published an article, "Hitachi, AlliedSignal develop new transformer", based on infor mation received from Allied-

> Signal executives and written responses submitted from Hitachi regarding a new transformer being developed by Hitachi using AlliedSignal's amorphous metals. The tone of the article could suggest that Hitachi and AlliedSignal are jointly developing a new type of transformer. This is not true. AlliedSignal supplies the

Project not

developed

jointly

material. The design, engineering and manufacturing are solely being completed by and for Hitachi and its customers. Any interpretation to the contrary is incor-

Also, the Y10bn investment figure was mistaken. It should be Y1bn.

David Nathasingh, business segment leader, electrical transformers. Allied Signal, 6 Eastmans Road Parsippany, NJ 07054, US

#### Tax move would hit inward investment in the UK

From Mr Richard Law. Sir, As speculation grows that the budget will reduce advance corporation tax or the related tax credit, most of the comments have focused on the impact on pensions. The potential

impact on inward investors and investment in the UK generally appears to have been overlooked. To an inward investor.

ACT may not seem to be a big issue. But if our tax treaty with the country of the parent company allows a repayment of the tax credit. its disappearance could increase the effective tax rate on UK profits by 5 per cent or so. This will make the UK much less attractive as a destination for inward investment. Most affected

would be the US, our biggest source of such investment

Interestingly, there has recently been talk of "transitional arrangements" to reduce the effect of a change

on individuals. Perversely. this may enable inward investors to continue to benefit from a repayment of the tax credit, entitlement to which, under our tax treaties, is generally linked to the entitlement of a UK indi-

For a UK group, the effects of a change are more subtle. A group writing off ACT may actually be skewing its investments to favour the UK and to create domestic profits which can use up ACT. Reducing ACT would remove a factor which

encourages such groups to invest in the UK rather than

Richard Law, Ernst & Young. Becket House. 1 Lambeth Palace Road. London SE1 7EU, UK

From Mr Michael Renshall. Sir. There is a misconception that if the tax credit on dividends is abolished the lost income to pension funds can be made up by injections from companies ("Dividend tax credit expected to be scrapped", June 16).

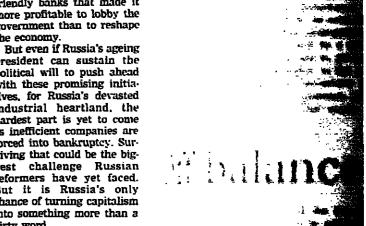
Even if this facile assumption were true, it could only apply to defined benefit company schemes, which guarantee final pensions for their members. No thought seems

to have been given to the many millions more of defined contribution personal pension plans which have no benign employer standing behind them

The dividend credit is a significant element in planning the necessary contributions to accumulate a fund sufficient to meet pension needs. If this income stream is amputated there will be a shortfall which cannot be made good, retirement plans will be savaged and reasonable hopes betrayed.

Every individual with a personal pension plan should be made aware of the implications of this proposal.

Michael Renshall. 50 Cleveland Square, London W2, UK



willined.

#### FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700 Thursday June 19 1997

## Europe becalmed

sion conference. But even the lowest expectations have been disappointed by the paltry results achieved in Amsterdam yesterday morning.

One or two governments, in the more Eurosceptic countries, have been so bold as to claim the outcome as a victory. But by any semblance of political whatever they achieved was accountability or any convincentirely negative.

into a federal superstate, if threat there was, has been held at bay. But the price paid is the abandonment of any serious effort to develop structures capable of managing a larger union. That is a defeat for Europe as a whole, but espe-cially for those states which have posed as champions of enlargement. The truth is that there are no victors, only losers, in this sorry affair.

It is not surprising, perhaps, that the UK found ready allies in its battle to stop the EU usurping Nato's role as a defence organisation. It is more so that the UK's opt-out from common border controls, with ireland as an enforced partner. did not enable continental EU members to forge ahead with a common immigration and asylum policy decided by majority vote. Germany, it turned out, is as reluctant as anyone to risk

being outvoted in such matters. The original reason for

No one had great expectations (and Italian) dissatisfaction at from the EU's Maastricht revi- the failure to agree a true political union in Maastricht as the counterpart to monetary union. But now Chancellor Helmut Kohl has apparently abandoned any ambition of that sort, deciding instead to stake everything on a single currency manage by a central bank untrammelled ing mechanism for producing The "threat" of integration coherent economic policies. It seems a perverse and dangerous

> Yet perhaps it is the small states, long the loudest advo-cates of a quasi-federal Europe, who have played the biggest part in blocking any development in that direction. They were unwilling either to renounce their right to national representation in a body (the Commission) whose very raison d'être is to represent the union as a whole, or to accept a redistribution of voting weights that would make the council more representative of people as

reversal of priorities.

opposed to states.

Those two issues, as well as the deeply contentious ones of the common agricultural policy and the structural funds, are thus left to be settled in tandem with the enlargement negotia tions. It will be a miracle if the result is not to prolong the latter, probably to the point where would-be members begin seriously to question whether the scheduling a treaty revision EU is a club worth joining at

## Off balance

month's House-Congress agreement to balance the budget by the year 2002 was purely symbolic. The details were left to the congressional committees, as was the inevitable hard-bargaining. The Republican response has been disappointing. The proposals put forward by Congressman Bill Archer, chairman of the House Ways and Means Committee, are both unfair and fiscally irresponsible. The plan of Finance Committee. Senator

William Roth, is little better. Mr Archer's plan grants a net tax cut of \$85bn over five years. Mr Archer claims that he wants to help middle income families. But the US Treasury estimates that 68 per cent of the tax cuts go to those in the top 20 per cent of the income distribution. The tax credit for families with children is designed to exclude the working poor, who are most in need of extra help. The college tax credit and the new interest-free IRA savings accounts will benefit only those who can afford to make such payments. Inheritance and capital gains tax cuts further advan-

tage the well-off. Mr Roth's plan is not much tax cut, but gives a bigger break on inheritance tax. The Treasury says that 60 per cent of the tax cuts still accrue to the top 20 per cent, while less than 13 paper it is written upon.

White per cent of the tax cut goes to the bottom 60 per cent.

Worse still, although the Archer plan might lead to a balanced budget in 2002, problems will re-emerge thereafter, because the impact of the tax cuts will be delayed. Reducing capital gains tax from 28 per cent to 20 per cent, for example, would swell revenue in the first years, as investors take profits on existing equity holdings. After 2002, however, the lower

give tax cuts now, while delaying the budgetary crisis until later. Between 2002 and 2007 the Archer plan would leave a \$165bn gap in the budget Between 2008 and 2017, the shortfall would be in excess of \$650hm according to the Centre on Budget and Priorities, a Washington based think-tank. The Roth plan is little better. President Clinton would like

Thus Republican proposals

restoration of fiscal order to be a landmark of his presidency. This is why he has invested so much political capital in balancing the budget. But balancing the budget in just one year is hardly an historic achievement If the Republicans fail to improve the final bill they send better. It trims the capital gains to the White House, Mr Clinton should exercise his veto. With out a more sustainable fiscal commitment, the balanced budget agreement is not worth the

# Ripples on the mainland

China sees Hong Kong's return as righting an historical wrong and as a landmark on its march back to greatness, says **Tony Walker** 

hina's leaders could not be accused of understating the historical significance of the Hong Kong handover later this month, nor have they missed the opportunity to wring propaganda from the

The Chinese media juggernaut bas been in overdrive for days. heralding an event whose importance in China's modern history is arguably matched only by the demise of the last imperial dynasty in 1911 and founding of the People's Republic on October

Mr Li Langing, vice-premier, says the handover is of "great importance for the entire Chinese people and people of Hong Kong". He might have added that Hong Kong's return to mainland control will send ripples well beyond China itself, to overseas Chinese communities from Vladivostok to Tierra del Fuego and well beyond.

The event will be a watershed in China's resurrection from the "sick man of Asia" to a country once again aspiring to greatness. The handover is also linked inextricably with the rise of the Pacific as an economic powerhouse, fuelled in no small part by China's extraordinary growth and potential.

Since it opened its doors in the late 1970s to foreign investment and began reforming its Stalinistera economic system, China's has been the world's fastest-growing leading economy. Growth has averaged 10 per cent for the past

Mr Qi Pengfei, vice-dean of the Communist party history department at People's University in Beijing, believes Hong Kong's return will both correct an historical wrong, and help underpin China's stirring revival.

From China's viewpoint the opium war of 1840 and the ceding in perpetuity of Hong Kong island to Britain in 1842 marked the start of the nation's decline. The first opium war, prompted by Chinese destruction of a large quantity of the drug belonging to British traders, prompted a fierce reaction from Britain which conducted punitive raids along China's coast, occupying key loca-

We talk about 5,000 years of Chinese civilisation, but the real. China from Revolution through decline only started recently," says Mr Qi. "During much of China's history the Chinese contributed a lot to civilisation, but once have been very few contribu-

Hong Kong, by contrast, a barren rock of little apparent value in 1841 and a British trading outpost in its early years of colonisation, has become a potent symbol of Chinese entrepreneurship. The mainland is about to reclaim its prize, and scant acknowledgement will be accorded Britain's contribution to Hong Kong's suc-

Chinese historians, adept at navigating the shoals of contemporary events, have been gearing up for months to "interpret" the occasion in a way that casts China and its leaders in the most favourable light.

Mr Oi, who recently published Sunrise-Sunset, an account of Hong Kong's return to mainland control, leaves no doubt about his perceptions. "China's ulti- negative influences, he says, mate goal is to revive itself as a emanating from Hong Kong's strong Asian civilisation and stridently materialist culture of regards as a renegade province. can bear. This would inevitably

"money-worship" and excessive

Outsiders also share this view although their conclusions tend over will be largely symbolic. to differ on the consequences for "We should not exaggerate the China itself. Chinese scholars degree of impact of the event believe the event will strike a itself," says Mr Yu Yongding. moral blow, bolstering Chinese director of the Research Centre self-esteem and facilitating for International Finance at the China's continued march on to Institute of World Economics and the world stage. Western academ-Politics. "We have already experiics, on the other hand, appear enced the impact of Hong Kong more interested in the impact of over the past 20 years." Hong Kong's return on China But Hong Kong, as it has over

itself, politically, economically the past several decades, will continue to make its presence felt Mr Kenneth Lieberthal, profesboth as a catalyst for change on the mainland itself and as an sor of political science at the University of Michigan and author of increasingly important hub for the recently published Governing China's relations with the outside world. Reform, believes the "big story" Rather than becoming less sig-

over the next two decades will be nificant as a mediating point for Hong Kong's impact on China. China's commercial relationships with the outside world, in favour "I think you will see Hong on China than expected," he Kong seems set to assume even says. "Reformers in China are greater importance. The rush of bound to feel they can legitimainland companies to Hong mately press for a system closer Kong in recent years underscores to that of Hong Kong. They will the trend. ask: 'why should Hong Kong Mr Zhang Yongjin, senior lechave freedoms we can't enjoy'.'

turer in politics at the University of Auckland and consultant to the Institute of World Economics endorse "capitalist" Hong Kong and Politics, believes Hong Kong's real contribution to China lies in its value as a springboard for its commercial ambitions. "Looking to the future, China stands at the point of take-off," Mr Zhang says. "Hong Kong will certainly make great contributions to that take-off in all sorts of ways, including China's integration with the world economic system and also in its impact on economic development in China

The handover also has clear

Academics, however, do not see the "one country, two systems" formula that has been applied to Hong Kong as a model for Taiwan. China, they believe, will

formula which takes account of Taiwan's special characteristics. Many are convinced that July 1 will profoundly change the way Beijing and Taipei relate to one another. "Previously, Taiwan could deal with Hong Kong without dealing with the mainland," says Mr Yong, director of the

have to come up with a different

"But after the return of Hong Kong the Taiwanese will have to increase contacts with the mainland, and this will provide opportunities for mainlanders and Taiwanese to know each other better ... to build confidence," says Mr Yong. "Hong Kong could even become a mediating point

uch calculations generally take as their starting point the assumption that the transition after the handover of Hong Kong will run to triumphalist editorials in are more pessimistic scenarios. China itself could undergo upheaval such as that which occurred in 1989 when pro-democracy demonstrations threatened to tear the country apart. A repeat of such an episode, in which Hong Kong citizens

became involved, would invite

intervention by Beijing, seriously

endangering the "one country,

A less dramatic threat to the Hong Kong-mainland partnership might involve ardent pro-democimplications for mainland ambi-racy activists in Hong Kong tions to reclaim Taiwan, which it pushing beyond what the system

two systems" formula

invite reaction from Beijing. especially if mainland dissidents became involved.

Other negative outcomes might involve policy miscalculations by Beiling, which are likely to be based on a plethorn of advice from mainland officials in Hong Kong. These might include representatives of such organisations as the New China Newsagency, the Ministry of Foreign Affairs, the People's Liberation Army. state security and the Hong Kong-Macao Affairs Office of State Council; not to mention self-serving interventions from some of Hong Kong's billionaires.

In their enthusiasm for the return of Hong Kong, the Chinese tend not to reflect on the possible negative consequences for their own country and the world. It is feared by some, for example, that a triumphalist China might rub

Chinese propaganda is coloured by strongly nationalist sen-timent, from films such as the blockbuster The Opium War portraying heroic orientals confronting demonic British colonialists relatively smoothly. But there People's Daily, the Communist party newspaper.

But Mr Qi from the People's University believes that western fears of a resurgence of destructive Chinese xenophobia are exaggerated. He decries fashionable western notions of the inevitability of a clash of civilisations between east and west.

"If China, with its 1.2bn people, remains poor, desolate, impoverished, and chaotic this would pose a more dangerous threat," he says. "But once China becomes strong it will become more self-assured and this will enhance mutual exchanges with

## After burn

The Monopolies and Mergers Commission has done well to settle the arguments which have divided BG and its regulator for more than a year. In its price control ruling, the MMC has rightly come down firmly on the side of Ofgas - but has left BG with just enough crumbs to stop it running away

from the table. The decision sets a stable framework for gas prices until the next review in 2002, clearing the ground for growing competition in the industry. It also removes uncertainty from BG, leaving it free to concentrate on other challenges, such as growing its international exploration. The government will be happy that a row with business has been resolved - and that

gas bills are coming down. The MMC's key ruling is to endorse Ofgas's decision to base the valuation of pipeline assets on BG's stock market value at flotation - instead of the book value, as has happened until now. The change brings gas broadly into line with the electricity and water industries, adding a welcome sense of con-

sistency to the regime. The ruling cuts BG's asset value for regulatory purposes from about £17bn to £11.6bn. Since the regulator's price controls are based on asset values. the prices BG charges for shipping gas will fall, and with them

The decision leaves BG with less surplus cash than before. It argued that it needed the money to invest in renovating pipe lines. But MMC accepted Ofgas's argument that most investment will not be required for many years, so it is unfair to burden today's consumers and risky to give BG the funds so long before they are needed. In effect, the MMC ruled the UK would be best served by treating the pipeline monopoly as a low-risk low-return business rather than giving BG surplus cash to invest elsewhere.

However, the review raises questions about the regulatory regime. The system in which the MMC arbitrates in disputes between utilities and regulators worked in this case because both BG and Ofwat have accepted its report. BG would have been foolish to continue the fight when the new government nurses suspicions about the whole nature of profitmaking in regulated industries. But the experience of Northern Ireland - where the electricity regulator earlier this year rejected an MMC report on pricing - exposed the regime's shortcomings. A solution could be to give the MMC a stronger role - and to make its rulings binding. With no other utility dispute on the MMC's agenda, Labour has time before it needs to tackle regulatory reform. But

it should not wait too long.

#### Dial Stet for soccer

■ Guido Rossi has two big deals on his plate. As chairman of Stet-Telecom Italia, he's fixing up a strategic alliance with AT&T of the US and hopes to privatise the Italian telecoms group in the autumn. As a fan of inter Milan and a friend of its owner Massimo Moratti, he's taking a hand in the soccer club's multi-billion-lire bid tobuy Ropaldo, Barcelona's goal grabbing Brazilian superstar.

Cigar-smoking Rossi seems much more excited by football than telecoms. A graduate of Harvard law school, who has by turns been an independent communist senator and chairman of Italy's stock market waichdog Consob, the government sent him into Stat

this year to speed its privatisation. He says he's doing the job for nothing and wants to leave the ducout after the lloat to our sue his other extensive business and legal interests and nothing is closer to his heart. Beijing contributions to US than the blue and black stripes political campaigns. of Inter Milan

Capturing Ronaldo will help prepare inter for flotation. Rossi believes inter could become one of the most widely held stocks on the Stalian market - probably of stuffed toy animals which even more than Stet, which has - were such a hit with little

a lot fewer fans. Does this mean that sport rather than telecoms is the business of the future?

Chinese scholars, constrained

by worries about appearing to

as a model for China, are more

circumspect. But Mr Jiang

Dachun, professor in the Insti-

tute of Modern History, Academy

of Social Sciences in Beijing, con-

cedes: "Hong Kong can be a very

important experience for setting

Mr Qi says Hong Kong will

"heavily influence" China posi-

tively in areas such as competi-

tiveness, efficiency and the tradi-

tion of the rule of law, as opposed

to rule by law. There will also be

in order things at home."

reunification is part of this grand

and socially.

#### Net price

■ Inter may end up paying \$40m for Ronaldo, but that'll soon look cheap judging by the way the price of footballers in Spain is rising. Yesterday, league champions Real Madrid put a \$100m tag on 24-year-old Brazilian defender Roberto Carlos, a sum as mind-bending as the player's swerving free-kicks. It's just a couple of years since top whack for a player was under \$15m. If Spain

includes football in its inflation

index, it'll miss European

monetary union by a mile. Cuddly clincher

Forget the old arguments about whether Washington should renew China's most favoured nation trade status. Away with worthy talk of human rights, dubious arms sales, trade deficits and alleged

US legislators have been

confronted with the clinching argument for extending MFN to China – it's bug-eyed, it's farry, it's the "Tickie Me Elmo" range

Americans at Christmas that much parental anguish and quencing time went into acquiring them.

The US National Retail

OBSERVER

**Federation says that if Congress** overturns MFN, a 90 per cent tariff would be slapped on many Chinese-made toys. This would nearly double the price of the cute cuddlies, putting them out of the reach of many families. So it's MFN for China or tears before bedtime. That should sort out the MFN issue for this year.

#### Thundering herd ■ It's never been a good idea to get on the wrong side of a Texan

rancher, so you have to feel some sympathy for the US Humane Society and TV chat show hostess Oprah Winfrey, who've irked a whole dang prairie of them. A hombre from the humane

society went on to the Oprah Winfrey show last year and said something about the beef industry which Observer won't repeat, not wanting to invite a stampede of irritated cowmen. Suffice to say that Winfrey told the world she wouldn't be esting any more burgers. That very day, cattle prices began to fall and lost 10 per cent within a

Things were already pretty bad home on the range, what with high feed prices.

oversupply and all, and the show made the good ol' ranchers madder than a bag of rattlesnakes. A posse of them has just issued writs under a 1995 Texas law that protects agricultural products from slander. Watch for the shootout

#### Tax twist.

at the OK courtroom.

Sydney hoteliers are livid about the New South Wales government's planned 10 per cent "bed tax" on hotels in the run-up to the 2000 Olympic Games. Now state treasurer Michael Egan has upset another business sector: he says the tax will also apply to brothels. though only to their "accommodation component". It's up to tax inspectors to work that one out, he says, adding that they would have "a little bit

#### Toreador's trial

of spice added to their work",

A bullfighter from Nimes in southern France was yesterday placed under investigation on charges of cruelty to animals over an illegal builfight, in which four of the horned beasts died. His lawyer says he didn't take part. Apparently the fight was illegal because it was held in private - if it happens in ... public, it isn't crael.

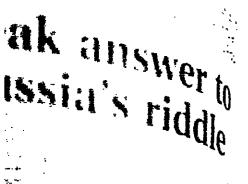
## Financial Times

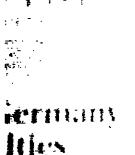
#### 100 years ago Trade In Venezuela

The Consular report dealing with the trade of Venezuela is of none too helpful a nature. disorganised trade during 1896, and with the low prices prevailing the future looks none too bright. There seems very little initiative in regard to any other industry to make up for this loss. British trade with Venezuela shows a slight improvement, but the leading foreign business houses are German, and consequently German trade has every encouragement. There does not seem much prospect of improvement during 1897, the elections being a disturbing factor looming in the future.

#### 50 years ago Marshall Pian Talks

Paris, 18th June, Britain and France to-day sent an official invitation to Russia to participate in examining the Marshall Plan for aid to Europe, the French Government announced here. M. Pierre Bourdan, the Minister for Information, said the proposed examination would be conducted by a Commission. He could not say whether the existing United Nations Commission would be

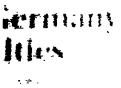


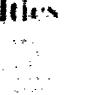


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European Economic whether this would be a special commission or

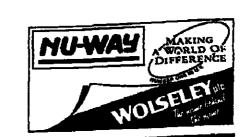






## FINANCIAL TIMES

Thursday June 19 1997



## Surge in Japan's trade surplus sparks US fears

Japan's trade surplus more than tripled to Y738.27bn (\$6.4bn) last month, sparking fears of fresh tensions with the

Ms Charlene Barshefsky, the US trade representative, said the surplus was disturbing and reiterated the US's expectation that domestic demand growth, not exports, would lead Japan's economic recovery.

But Mr Jeffrey Frankel, a member of the White House Council of Economic Advisers, said the US would not attack Japan over trade policy at the Denver summit of the Group of Seven industrialised nations which begins tomorrow.

The customs-cleared trade balance rose by 222 per cent compared with the same month last year, the second monthly rise in a row and well above market expectations.

Mr Yasuo Matsushita, governor of the Bank of Japan,

and Antony Goldman in Lagos

Nigeria's military government

has accumulated \$10bn in

arrears on debt repayments to

western creditors over the past

three years, while failing to

account for earnings from oil

Bank report.

exports, according to a World

"Pervasive mismanagement

robs the economy of resources

that could be used for growth

and poverty reduction," says

the bank in an economic anal-

The report, prepared for a

donors' meeting in Washing-

ton last week, puts Nigeria's

external debt at \$34.7bn,

Although exports - mainly

oil - rose to \$14.1bn in 1996,

the government chose to limit

debt service payments and

3 per cent of gross domestic

maiden parliamentary speech to indicate that he will delay

implementation of promises to

raise spending on education

and housing and to cut indi-

rect taxes until 1998 or 1999.

A senior financial policy-

maker cautioned that markets

would take amiss any "neo-

Keynesian" measures to pump

But Jospin may use his

Continued from Page 1

including \$17.4bn in arrears.

ysis drawn up last month.

later constrain the surplus.

In May, Japan had substanmain trading partners. The surplus with the US almost doubled to Y322.87bn over the same period. Its surplus with the EU more than tripled to Y206.5bn and the surplus with Asian countries rose by 73 per cent to Y578.02bn. In response, the dollar weakened slightly to just above Y113.

Japanese finance ministry officials said the rise in the trade balance was temporary, partly caused by the 15 per cent decline of the yen over the year to May, which has rendered Japanese-made goods cheaper abroad. Another factor was a short-term decline in demand for imports as a result of a rise in sales tax on April 1. There has been a backlash against a tax-beating shopping spree early in the year.

Nigerian debt arrears 'up

says the report. In 1994 debt

arrears were \$2.9bn, and went

of official creditors amounts to

\$19.1bn. Britain, the leading

creditor, is owed \$5bn, includ-

ing arrears of \$3bn, Germany

\$3.8bn, Japan \$3bn and France

Nigeria, but both the bank and

the International Monetary

Fund have, in effect,

istration of General Sani

Abacha, the president, with

"some modest progress on

improving transparency and

accountability", but it makes

clear that public sector corrup-

Mr Jospin's Communist allies

are pushing for a big increase

A first sign that the leftwing

government is relaxing its

predecessor's squeeze on the

public sector came this week

when trade union leaders

claimed they had won assur-

ances that no more civil ser-

Mr Jospin is insisting his

new majority of Socialists,

Communists and Greens sup-

port his statement in a confi-

dence motion todayThe speech

will prepare the way for any

and for the 1998 draft budget.

vice jobs would be axed.

tion remains pervasive.

thus accumulated an addi- account at their summit in worldwide".

this year

**Europe looks to Jospin** 

The bank credits the admin-

suspended operations there.

A World Bank team is in

Debt owed to the Paris Club

up a further \$3.6bn in 1995.

\$10bn over past 3 years'

By Michael Holman in London tional \$3.5bn in new arrears",

\$2.8bn.

on rising in the short term, but come under pressure from the that domestic economic recov- US to support domestic growth ery and a strong yen could and increase demand for imports. But Mr Seiroku Kajiyams, the chief cabinet secretially larger surpluses with its tary, yesterday said the higher surplus might help the Japanese economy by supporting

the yen. Exports rose by 20.5 per cent, led by a 43.3 per cent rise in foreign car sales, a performance likely to annoy US competitors. Imports rose by 6 per cent, reflecting the weakness of consumer demand in the wake of the rise in sales tax. This has caused one Japanese carmaker to consider cutting domestic production.

Private sector economists doubt the government's claim that the surplus will soon recede. "It will take at least six to nine months to see Japan's trade surplus declining again," said Ms Mineko Sasaki-Smith, chief economist at Credit Suisse First Boston in Tokyo.

Edinburgh in October, when

they will decide whether to

continue Nigeria's suspension

on human rights grounds from

The report says accounts

and spending plans of large

state projects "remain

opaque", while "oil revenues

cannot be fully accounted for".

The state-owned oil sector pro-

duces 2m barrels a day.

accounting for more than 90

per cent of foreign exchange

earnings. Bank officials pri-

vately suspect the equivalent

of 200,000 barrels a day is

diverted into accounts con-

The report calculates that

Nigeria's gross national prod-

uct per capita has declined

from \$1,160 in 1980, at the peak

of the country's oil boom, to

Fighter link

aircraft division favoured

backing the Boeing design. But

fears over the reaction of

BAe's Airbus partners to such

a move, and the possibility of a

long term strategic alliance

with Lockheed, finally swung

Large scale work on the JSF

for BAe is not guaranteed

gies being used by Boeing.

the decision.

FT WEATHER GUIDE

Continued from Page 1

trolled by the military.

likely to take the report into among the 20 poorest countries

the organisation.

Honda output, Page 14

## markets minister's

By Ted Bardacks in Bangkok

The decision will be the big-gest political challenge yet to the six-month-old government of General Chavalit Yongchaiyndh, the prime minister.

excise taxes on motorcycles,

to reduce the country's expec-ted budget deficit. Yesterday Mr Amuuay said through an aide that he would hand his resignation

granite, marble and batteries

investors has waned because of the belief that the governenough on economic policy. Gen Chavalit may have diffi-

culty replacing Mr Amnuay with a non-politician, although Mr Olarn Chaipravat, Siam Commercial Bank's president, has been mentioned as a candidate.

## Thailand's braced for resignation

land's finance minister, will submit his resignation today in a move likely to throw the country's financial markets into further disarray.

this week over fiscal policy made it clear that Mr Amnuay lacked the political clout to push through tough measures, which are needed to clean up the country's ailing financial system and fend off speculation against the Thai baht.

former president of Bangkok Bank, was brought into the

Rumours of his resignation

ter's popularity with foreign

Commonwealth leaders are \$240 in 1996, "placing Nigeria

to turn to allies in the coali-tion, particularly ministers from the second largest coalition party, Chart Pattana, who had been Mr Ammuay's most

vocal detractors. This would lead to a full-scale cabinet reshuffle in which Mr Narongchai Arkarasance, the commerce minister who is a non-MP and ally of Mr Amuuay, could also lose

because although the US Air Force likes the Lockheed fighter design, the Marines and the Pentagon are thought alterations to the 1997 budget, to favour some of the technolo-

Mr Amnuay Viravan, Thai-

A humiliating defeat earlier

Mr Amnuay, a non-MP and

government by Gen Chavalit to shore up investor confi-dence in Thailand's economy, But rivals in the six-party coalition government reversed Mr Amnuay's plan to raise

letter to the prime minister tomorrow".

sent the Thai stock market reeling yesterday. It closed down 3 per cent at its lowest level since 1989, while the baht slumped in domestic and foreign markets. However, the finance minis-

ment is not being decisive

The General may be forced

Chart Pattana, led by Mr Chatichai Choonhavan, a former prime minister, is seen as having fewer ties with the financial sector than Mr Amuuay or the opposition Democrat party.

That leads some analysts to believe it would be more able to implement a painful hui necessary restructuring of the

Political change could hardly be for

The stock market is up 20 per cent this year in dollar terms and is at an attractive nine times forecast dollar-denominated earnings. Turkey has some quality companies with entrepreneurial flair, although accounting quality and inflation argue for a risk discount. And with political uncertainty and rising interest rates continuing, investors would do well to wait.

Game, set and match to Britain's gas regulator. Of course there are crumbs of comfort for BG in yesterday's 400-page Monopolies and Mergers Commission report. But the company's objective all along was to get the regulator's plans sub-stantially watered down. And it failed. The MMC backed the regulator's central proposal, over depreciation on BG's asset base. And although it relaxed the regulator's aggressive cost assumptions, this is offset by other changes; the result is a set of price controls at least as tough as those the regulator was

originally asking for. Moreover, BG would love inves-

## THE LEX COLUMN

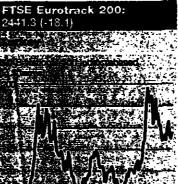
## Turkish traumas

In theory, the departure of Mr Necmettin Erbakan, Turkey's Islamist prime minister, is just what the financial markets needed. The threat of more militant Islamic policy had encouraged nervousness, as did the threatening response from the army. His weak coalition failed to implement the tough measures necessary to rein in an inflation rate of close to 80 per cent.

But it may not be much for the better. If Mrs Tansu Ciller regains power it will be by the thinnest margin, needing continued support from the Islamists and other independent parties. It will be the same government with a different figurehead. Tensions with the military will remain. If she loses a confidence vote - a definite possibility power should go to the more investor-friendly Mr Mesut Yilmaz. But the opposition parties are in disarray, providing a weak power base. Maybe a temporary technocratic government could emerge, which could at least achieve electoral reforms and ensure subsequent elections produced more stable gov-

ernments. But that is a long shot.

tors to think all the regulatory issues have at least been conclusively clarified. But no such luck. As the regulator made plain, the



an issue which could knock a further £2bn off BG's assets – has been left for another day.

So was it a disastrous blunder to gamble on the MMC? Certainly those responsible for the decision -Mr Richard Giordano, BG chairman, and Mr Philip Rogerson, his deputy - were conspicuously invisible yesterday. Still, it is unfair to judge them with hindsight. The MMC could easily have produced a cushier report, as for instance it recently did on airports operator BAA. And all BG has really lost by going to the MMC is time and face.

But it remains striking that such a grim result should have been so warmly greeted by the stock market. One explanation lies in a raised dividend forecast from the company's broker. But another is stability. The MMC's conclusions may be grim, the argument runs, but at least investors can get on and value the company on fundamentals. And these remain attractive. The demerger has helpfully focused attention on BG's non-regulated businesses; many now reckon these are worth £4bn or so. Add the £11.6bn on which the MMC is allowing returns and subtract debt - in theory, BG should be worth around £12bn. Yet its market capitalisation is less than £10bn.

This is persuasive logic - the more so thanks to recent months' rally in utility share prices, bringing many much closer into line with theoretical asset values. Moreover BG should have good news in store: the review of its upstream business, and its promise to rethink its undergeared balance sheet, have the potential to unlock real value. Some discount for residual regulatreatment of non-regulated assets - tory risk is certainly justified, but

the current value gap looks over-

plack

.. No 12 4

Corporate taxation

How might Britain's Labour government justify its planned raid on pension funds' dividend tax credits. The honest approach would be to say that, with tax-raising, it is best to pluck the geese that hiss the least. There is a risk, though, that Labour will try to dress up a £5bn a year increase in corporate taxes as pro-business. Not only would the move do little if anything to increase industry's cost of capital the argument might run; by encouraging companies to retain earnings rather than pay out dividends it could actually boost investment.

Such a notion could be dismisse as empty rhetoric if it was not backed by the respected Institute for Fiscal Studies. According to the IFS, business has three sources of capital: debt, retained earnings and new equity. Raiding the tax credit would have no effect on the cost of using debt or retained earnings. True, it would increase the cost of raising new equity. But, since new equity is a pretty small portion (perhaps 10 per cent) of industry's total capital requirements, the impact on the weighted cost of capital would

be minimal. The argument is seductive but flawed. The right distinction to make is between paying dividends and retaining earnings rather than between new and existing equity. The current tax system does give an incentive to pay dividends rather than retain earnings. But that applies to existing as well as new equity. To argue that it does not relies on the false assumption that existing equity is trapped in a business for ever. Look at it another way. If Labour does cut the credit, further falls in share prices
- on top of the drop so far this week - are probably in store. And lower share prices would mean companies were paying a higher yield on both existing and new equity. The net increase to industry's cost of capital would be perhaps one-third of a percentage point.

Britain's corporate tax system cannot of course be defended from a purist perspective. But if the tax credit is to be raided, industry should insist on countervailing cuts in other corporate taxes. Now is the

See additional Lex comment on UK retail sales, Page 18

This announcement appears as a matter of record only

June 1997

#### **Telkom SA Limited**



#### The Government of the Republic of South Africa

through

The Ministry for Posts, Telecommunications & Broadcasting

Sale of a 30% strategic equity stake in Telkom SA Limited for

USD 1,261,000,000

to a consortium of SBC International, Inc. and Telekom Malaysia Berhad

Financial and telecommunications sector strategy adviser to The Ministry for Posts, Telecommunications & Broadcasting

> A Division of Swiss Bank Corporation

#### up consumption and inject demand into the economy. Though France's minimum wage is reviewed every July.

### Europe today

Rain and showers are expected over the UK and north-western France, Later in the day, the Benelux will also have showers Germany will be dry with sunny

Central and southern France will

have a mix of sunshine and cloud. it will be sunny over the Iberian

peninsula, but thunderstorms are still likely over north-east Spain and the Pyrenees. Northern Italy and the Alps will have showers, but central Italy will be mostly cloudy and dry. Greece and southern Turkey will have plenty of sunshine. The northern Balkans will have some

showers and the northern Black Sea area will have some rain. Five-day forecast

The northern part of Europe will continue to be unsettled with cloud, rain and a fresh westerly to south-westerly wind. Low pressure will bring plenty of



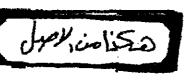
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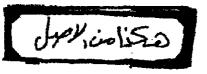
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Dublin fair 32 rain 16 fair 27 fair 27 fair 35 fair 35 fair 35 fair 35 fair 31 sun 41 shower 17 cloudy 28 shower 17 No other airline flies to more cities around the world.

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Malta
Maintheater
Marilla
Melbourne
Mestec City
Misami
Milami
Milami
Moscow
Munich
Natrobi
Naples
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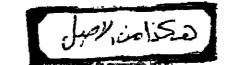
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fair 31
shower 14













#### **FINANCIAL TIMES**

## COMPANIES & MARKETS

**OTHE FINANCIAL TIMES LIMITED 1997** 

Thursday June 19 1997



#### IN BRIEF

th traumas

#### Moulinex back in the black

Moulinex, the French household appliance group in which Mr George Soros is a leading shareholder, has returned to the black after five years of losses. The company reported a profit of FFr29m (\$4.97m) for the year to March, up from a FFr702m loss previously. Page 17

Guinness/GrandMet merger in spotlight Regulators in the US are expected to announce an investigation into the £23.85n (\$38.85n) merger between Grand Metropolitan and Guinness that would create the world's leading wines and spirits group. The European Commission is likely to launch a parallel inquiry. Page 18

Westinghouse considers \$3bn disposal Westinghouse Electric, the US media and industrial group, is studying plans to sell its refrigerated transport business, Thermo King, in a disposal that could raise up to \$3bn. Page 16

Gencor to merge its nickel assets South Africa's Gencor group announced it would merge its nickel assets with QNI, the listed Australian company which operates the Yabulu refinery in Queensland, to create the world's fourth-largest nickel producer. Page 15

Gazprom attacks government planning Gazprom, Russia's gas monopoly, which is under pressure to pay an outstanding tax bill. blamed poor government planning for the nonpayment crisis afflicting the country. Page 17

Global energy demand up 3% Global energy demand grew by 3 per cent in 1996, the highest rate of growth since 1968, according to a review by British Petroleum. It said 1996 was "an exceptionally strong year for energy consumption, primarily due to an upturn in the economic cycle and unusually cold weather in the northern hemisphere". Page 22

Charterhouse chairman to stand down Victor Blank, chairman of the merchant bank Charterhouse, who is among the City of London's best-known figures, is stepping down after 16 years. Page 18

16 News Corp

14 Nova Hut

16 PanCanadian

14 Olivetti

17 Oracie

14 Pembina

13 Philips

13 Porsche

18 Nokia

13 Honda Motor TSTA 15, 16 Hortex 14 Hyundai Air New Zealand Aldeasa Alphatec Electronics 14 Kingstream American Express 14 Lockheed An Feng Steel 14 Lonem Ansett Australia 14 Lucent Asia Motors 14 Manaita Coal 22 Manchester United 16 Marseillaise Credit Bank Handlowy 13 Matsushita 16 McDonalds 20 McDonnell Douglas 17 Memil Lynch 15 Midland Bank Boral Energy 14 Motorola 1, 4 Moulinex British Aerospa 1, 22 NH Hoteles **British Petroleum** 

Charterhouse China Everbright Cofir Colombia/HCA Dai-Ichi Kanavo De Beers Ericsson Everbright Bank **Fokus** GP Banque Gezprom Glencore Inti Goldman Sachs

CS Resources

QNI Rolls-Royce 18 Royal Dutch Shell 14 Scottish Power Shell Canada 16 Sherwin-Willi 17 TVX Gold 13, 15 Tabacalera 14 Telecom Italia 16 Telefónica Grand Metropolita 18 Thermo King 18 Tractebel Value Health HKCB Bank 14 Westinghouse Harley-Davidsor 17 Wizard Finance

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Chief price changes yesterday 675 - 30 493 - 13 171 - 12 Feiths Cheung Koog &t Engle HSBC Hidge TVB Juck Citia PChi Process Postra les Faille KCE Beg

\$7bn move will break the legacy of South Africa's isolation

## Gencor spells out details of London base metals listing

By Mark Ashurst in Johannesburg and Michael

Gencor, the mining group based in Johannesburg, yesterday shook off the legacy of South Africa's isolation when it said it would list its base metals operations on the London Stock Exchange.

The move - which has been approved by the South African government - will create a new FTSE 100 company with a market capitalisation of about

The company will adopt the name of Billiton, the aluminium producer which Gencor bought from Royal Dutch Shell in 1994 for \$1.2bm. Billiton would also merge

chairman, said the move would free Billiton from the constraints imposed by exchange controls, which have

flotation

kind to come to market.

News and World Report and

the New York Daily News, is

the latest in a series of promi-

enjoy a special tax status in

the US, have made a strong comeback from the real estate

market's best-performing

Mr Zuckerman, who is

chairman of Boston Proper-

ties, holds 22 per cent of the company, which yesterday

was worth \$240m. He founded

it in 1970 with partner

Edward Linde, who will stay

on as chief executive and

The company was priced at

\$25 a share and was trading at

\$26% by early afternoon in

New York, reflecting moderate

enthusiasm for one of the big-gest initial public offerings on Wall Street this year. Some

31.4m shares were offered,

Known for 75 high-quality

office properties scattered in

and around Boston, New York,

and Washington, DC, the com-

pany has recently begun an

"They have a strong man-

agement team and will be suc-

cessful as a Reit, no question,"

said Jim Sullivan of Green

Street Advisers of California.

He added that the shares, at

more than \$26, appeared to be

Some analysts have also

expressed concern about Bos-

ton Property's highly leveraged balance sheet. The com-

pany's debt-to-equity ratio is

near 87 per cent, much higher than other office Reits which

As office rents have risen,

total capitalisation.

aggressive expansion.

trading at a premium.

per cent range.

companies this year.

nting for 63 per cent of

diversity internationally.

The listing would raise about \$1bn, which he described as "three or four times the amount that would be possible for a South African

company".

This would follow a demerger of the group's base metals interests from its platinum and gold mining businesses, which would continue to trade as Gencor. "The two companies are going their separate ways," Mr Gilbertson said. Mr Mick Davis, finance

director, said that for several years the demerger had been considered as a way to improve Gencor group's focus. "Now one [company] is a focused metal producer based

with QNI, the Australian in South Africa. One [comnickel group, to create the panyl is a London-based diver-world's fourth biggest nickel sified mining company with a listing on the London stock Mr Brian Gilbertson, Gencor exchange and consequently with access to international capital markets." The merged nickel interests

would have a market capitalisfrustrated attempts by South ation of about \$1.7bn. Billiton



Finance director Mick Davis said the demerger of Gencor's base metals interests from its platinum and gold mining businesses had been considered for several years

would hold 56 per cent of the smelter in the Mozambican world's biggest aluminium merged group, which would capital Maputo. include a 99 per cent stake in Colombia's Cerra Matosa nickel mine.

Cash from the listing would fund the next phase of its expansion, beginning with new Africa and Australia.

Within two months Billiton is expected to confirm its plan South African interests, in par-

The group is also consider-

ing projects in Brazil, Indonesia and Venezuela. Billiton would issue new paper to acquire the group's aluminium, coal, mineral sands, capital projects in Southern nickel, steel and ferro-alloy interests from Gencor. These include significant

to build a new aluminium ticular Alusaf, one of the

smelters, and a 50 per cent stake in Richards Bay Minerals, the world's lowest-cost producer of titanium minerals. Shareholders will get new

Billiton shares on a pro-rata basis, and would be left with shares in both groups. Billiton would take up a secondary listing in Johannesburg.

## Zuckerman Bakun dam rights issue scrapped Malaysian project suffers fresh blow as \$1.2bn deal founders

underlines turn in US

real estate (US\$1.2bn) rights issue to help Mr Mort Zuckerman, the US fund it was scrapped. media baron, yesterday raised Observers said the move nearly \$800m for Boston

reflected imease among inves-Properties, his real estate tors over the M\$13.6bn scheme only months before Bakun development company, marking a successful debut for one Hydroelectric, which will operate the dam, is due to be listed of the largest companies of its in Kuala Lumpur. They added that the dam's Mr Zuckerman, best known as the outspoken publisher of US publications including US

main institutional backers, most of which have links with the government, wanted to limit their exposure to the media and analysts' reports for project and were disinclined to its difficulties. subscribe to the issue.

of south-east Asia's most sigABB, the Swiss-Swedish enginificant infrastructure proneering group, is supported by
Mr Ting yesterday indicated jects, suffered another setback Dr Mahathir Mohamad, Malay has been postponed from the subscribed. The proceeds were yesterday as a planned M\$3bn sla's prime minister, who has end of July to "sometime in intended to buy a 32 per cent called it a "national project". But potential investors have become nervous in recent months as stock market values have declined. They regard the dam's projected 12 per cent return on equity as too low and have also been alienated

because the first operating revenue is not due until 2003.

Mr Ting Pek Khiing, the Malaysian tycoon organising the project, blamed negative The one-for-one rights issue

Mr Ting was persuaded to

drop plans for the rights issue after it became clear that investors regarded it as a disincentive to subscribe to the Bakun initial public offering. He dismissed concerns that the project might be called off.

"The IPO, whether it is over subscribed or undersubscribed, cannot stop the Bakun project going on." he said.

Mr Ting is believed to be stretched after he had to buy the lion's share of a M\$1.46bn The financing for Malaysia's

The 2,400MW project, for of 1.5bn shares had been due rights issue this month in Bakun hydroelectric dam, one which the lead contractor is about a year after Bakun Ekran, his flagship company, which is building Bakun. The issue was 63 per cent under-

> controlling stake in Bakun. Asked how he would pay for his share of the Ekran issue, he said: "That is a very rude question to ask. This is a private matter." He also joked: "I would steal from the bank. Rob a bank."

> He did not give details of how the M\$3bn in the forfeited rights issue would be raised but analysts said bank borrow-

#### Heavy demand for shares in Bank Handlowy

By Christopher Bobinski

An initial public offering in Bank Handlowy, one of Poland's largest banks, has been heavily oversubscribed and institutional investors are set to receive only six shares

for every 100 ordered. The IPO. Poland's biggest international issue to date, values Bank Handlowy at about

Schroders, the bank which advised the treasury on the IPO, said 31 per cent of institutional demand came from UK-based investors and 26 per cent from the US. The portion of the issue allocated to institutions was 17 times subscribed. Demand amounted to \$3.7bn.

The domestic retail tranche was subscribed 3.7 times, with retail investors receiving 35 shares for every 100 ordered.

The strength of demand means BH's three core investors - JP Morgan, Zurich Insurance and Swedbank will see their allocation reduced from 30 per cent to 24 per cent of the fully diluted capital. The difference will go to local retail investors. Local investors will be tak-

ing 18.9m shares – equivalent to a 20 per cent stake in BH. Mr Cezary Stypulkowski, the bank's chief executive, yesterday said BH's move into the private sector would allow it to prepare for its role as a Euro-

Poland expects to start talks on joining the European Union next year. Money from the EU's Phare programme and the British Know How Fund have helped finance the BH privatisation.

The success of the offer augurs well for the sale of KGHM Polska Miedz, Poland's integrated copper ore producer. This offer is priced on June 28 with analysts expectng some of the deman to spill over to the industrial conglomerate, which produces 3.5 per cent of the world's

In a parallel move which also favours the local market, the treasury has decided that Global Depositary Receipts paper listed in overseas markets which trades in lieu of shares - will cover 3.9m ing was the most likely source. I of BH's fully diluted capital.

#### Dai-Ichi Kangyo nent developers who have taken advantage of a surge in popularity for real estate investment trusts (Reits). barred by Japan These companies, which from bond sales collapse of the late 1980s to become one of the US stock

Bank may face further steps as Tokyo acts on scandals

By Gillian Tett in Tokyo

Dai-Ichi Kangyo, one of Japan's largest banks, was uspended yesterday from taking part in auctions of Japa-nese government bonds because of its role in recent financial scandals.

DKB from underwriting government - and governmentbacked - paper, is the first ever imposed against a Japanese bank.

It comes amid increasing determination by the government to clamp down publicly on scandal ahead of its planned "Big Bang" financial deregulation.

Earlier this week the Japanese parliament shifted responsibility for inspection of financial institutions away from the ministry of finance to a new body that will be answerable to the cabinet.

The Nomura securities group was recently excluded from participating in auctions of Japanese government bonds (JGBs) in a similar scandal for which the government is preparing to impose further penalties.

tend to be in the low-to-mid 20 DKB's exclusion from JGB auctions yesterday raised expectations that it, too, could many Reits have begun to face added penalties. develop their own properties An official investigation is

rather than acquire buildings. That has required more finanexpected to be completed soon, possibly by the end of this cing from capital markets and an increasing volume of sec-The scandal at DKB, Japan's ondary offerings from such second largest bank in terms

of deposits, centres on allega tions that it made unsecured loans to corporate racketeers, traditionally demanded payments from companies in exchange for not disrupting

inancial scandals. The investigation has The ban, which also bars already led to the arrests of 10 current and former executives including Mr Ichiro Pujita, DKB vice president, who was arrested last Friday and has since resigned. The scandal has also

increased the so-called "Japan premium" in the funding markets, forcing DKB to pay more than European and US banks for the money it borrows.

Earlier this week DKB was paying 4 of a point more for one-month eurodollar denosits than leading Western banking groups, compared with 1/2 last

Yesterday's ban applies to government paper of all maturities and begins with DKB's exclusion next week from the next major auction of 10-year bonds. Officials said that the suspension would last until the ministry decides on further administrative penalties.

DKB has traditionally been behind only Nomura Securities in its underwriting of government bonds. The bank derives most of its profits from its lending business, however, so the ban is not expected to dent profits significantly - but more severe government penalties could hurt, analysts say. This announcement appears as a matter of record only.

**APRIL 1997** 



SITA Telecommunications Finance B.V.

U.S. \$600,000,000

Syndicated Loan Financing

Bankers Trust International PLC HSBC Investment Bank plc

CO-ARRANGERS / UNDERWRITERS

Bankers Trust Company

Midland Bank plc The Chase Manhattan Bank

Scotiabank (U.K.) Limited

Banque Paribas

LEAD MANAGERS

De Nationale Investeringsbank N.V.

Société Générale

Crédit Industriel et Commercial (CIC Paris)

Hypobank International S.A.

The Mitsubishi Trust and Banking Corporation

Rabobank International

MANAGERS

Dai-Ichi Kangyo Bank Nederland N.V. Export Development Corporation The Royal Bank of Scotland plc

The Sumitomo Bank, Limited

Dresdner Bank AG London Branch Royal Bank of Canada Europe Limited

The Sakura Bank, Limited The Toronto-Dominion Bank

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## Red chips poised for bank deals

in Hong Kong

subsidiary of China's state for a controlling stake in council, rose almost 40 per cent yesterday after the com- share restructuring with its (US\$310m) purchase of a 20 per cent stake in Everbright Bank of China.

The deal is the latest corporate activity by "red chips" - Hong Kong-listed subsidiaries of mainland enterprises or government departments.

the Hong Kong investment Shares in China Everbright arm of China's foreign trade IHD-Pacific, a Hong Kong ministry, will pay HK\$2bn HKCB Bank after a complex

> Both deals mark a move services. In the case of Everbright Bank, it gives international investors access to the tightly regulated mainland banking sector.

fuelled investor interest in the Hong Kong market and its move to increase its 75 per cent stake in HKCB Bank.

IHD-Pacific up HK\$4.65 to HK\$17.25.

However, they also coincided with reports that Hong Kong's securities industry watchdog had launched an pany announced funding parent group and Lippo of investigation into possible plans for its HK\$2.4bn Indonesia. manipulation of share prices. The Securities and by red chips into financial Futures Commission said it was making inquiries into share-price movements in a broad range of companies,

Red-chips have been the announcements best-performing shares on International Bank of Asia Lippo will hold a combined renamed China Resources

It came amid reports that the red chip sector, driving ahead of this month's return stake in National Mutual China Resources Enterprise, shares of China Everbright to Chinese sovereignty. Asia, the insurer, from 2.5 Investors anticipate rapid per cent to 5 per cent. expansion in their businesses, partly based on asset comp for Mr Zhu, who has

> man of China Everbright IHD-Pacific, outlined further Resources has been slower. "The company's strategy is to become a broader red-chip the financial sector." he said,

The latest deal is seen as a

injections from their parent driven rapid expansion of the group since taking over Mr Zhu Xiaohua, chair- last year. Expansion at China

growth for the company. It has focused on trading and industrial activities, but has recently increased its conglomerate with a focus in presence in the financial sector. After the latest deal, Bank. HKCB will hold 100 citing the recent acquisition China Resources Enterprises per cent of HongKong Chi-of a 20 per cent stake in the and a joint venture with nese Bank, which will be



A100 luxury model as its planned Mercedes-basher.

engines remain earthbound.

The Lanos, Nubira and

Leganza use the same outdated GM-inspired engines

from the Espero and the

Nexia. It will not be until

1999 that the first of Dae-

woo's own XS family of

engines, given the official go-ahead last month, will be

The engine project has

failed to keep pace with the

speed of Daewoo's new car

programme. Internal differ-

ences may be to blame. While most of the company's

development work has until

now been done by a 2,500-

strong research and develop-

ment team in Korea, the

engine project is being mas-

terminded by fewer than 100

largely German specialists

at a new engine centre in

To bridge the gap until the

first of the new engines

makes its appearance - in the Shiraz - Daewoo last

month agreed to buy units

from Renault, along with the

right to manufacture some

Although Daewoo builds

Renault engines in Korea

diesels for commercial

vehicles, it does not make

any for passenger cars. Sub-contracting will eliminate

the cost of developing an

engine, which will probably

account for only a small pro-

portion of sales. Even a com-

pany with Daewoo's ambi-

tions, it seems, may have

learned that discretion can

be the better part of valour.

Munich.

and overses

installed in its vehicles.

But while Daewoo's styl-

#### ASIA-PACIFIC NEWS DIGEST

## Thai chip group to restructure debt

Alphatec Electronics, the Thai computer-chip maker facing a severe liquidity crisis, said yesterday it would come up with a financial and operating restructuring plan to submit to creditors within 45 days and that creditors would appoint an independent auditor to study the company's books. It also said it would indefinitely delay a 1996 dividend payment of Bt6.50 per share and seek to cancel the payment altogether.

Alphatec has missed payments on at least \$34m in outstanding loans to foreign banks and an unknown amount to domestic banks, and it has a put option on a \$45m eurobond due on June 22. Bankers said they had been asked for a 60-day standstill. The audit will be completed during this period as the company attempts to restructure its liabilities, which may involve some domestic banks converting their debts into equity.

Bankers say the audit is necessary as Alphatec has engaged in so much cross-lending to other companies in the Alphatec Group, which is owned by Mr Charn Usawoke, that creditors are unable to determine what assets and liabilities they would be taking on if they took shares in the company.

The Thai cabinet is delaying government help until after the restructuring plan is completed. It said: "The electronics industry in Thailand has high potential, is commercially competitive and is acceptable by world standards. The current problem . . . has occurred not from the marketing side but [from] the unprudential Ted Bardacke, Bangkok management on finance."

#### Jardine in T\$6bn Taiwan plan

The Hong Kong-based Jardine group is planning TSSbn (US\$215m) worth of investments in Taiwan as part of its Asian expansion. The investment thrust is largely concentrated on retail and ports.

Mr Neil McNamara, group corporate secretary, said the total of planned spending is less than the amount invested by Jardine businesses in the Philippines last year. As part of the group's investment programme in Taiwan, it plans to open up to five hypermarkets over the next five years, at a cost of around T\$500m each.

Suitable sites are now being sought for the stores, a oint venture between Dairy Farm, Jardine's retail arm, and Casino, the French retail group. The first outlet is scheduled to open next year. It also hopes to establish up to five new Ikea Swedish furniture stores in the next few years, as well as port terminals.

The group's renewed focus on Asia came after unsuccessful forays into UK businesses, including Trafalgar House, the engineering conglomerate, and Kwik Save, the food discounter. Other Asian countries in which Jardine is expanding include the Philippines, Thailand, Japan and China. Louise Lucas, Hong Kong

#### Air NZ, Ansett to merge units

Ansett Australia, the Australian airline, and Air New Zealand are to merge their New Zealand-based domestic air freight and courier businesses. The new unit, which will bring together the Air New Zealand First Express and the Ansett NZ Air Freight operations, will be established as an equal partnership. The deal follows Air New Zealand's purchase of a 50 per cent interest in the Nikki Tait, Sydney Australian carrier last year.

#### **Boral Energy in A\$220m deal**

Anaconda Nickel, which is developing the A\$900m (US\$677m) Murrin Murrin nickel/cobalt project in Western Australia with Glencore International, has awarded a A\$220m contract to supply gas to the project to Boral Energy, part of the Australian Boral group. Boral will build, own and operate an 80km spur line from the main Goldfields Gas Transmission pipeline, which pipes gas from the North-West Shelf in the north of Western

group, yesterday voted in favour of the merger with Taiwan's An Feng Steel group. Kingstream will own 19.7

The two companies are partners in the "Mid-West Iron Kingstream's tenements in Western Australia to produce steel slab at a facility near Geraldton. The merged group is planning a capital-raising of about A\$650m (US\$489m)

to meet about 30 per cent of the project cost. Nikki Tait

## Daewoo reaps rewards of design change

or a brand habitually have been positive, though dismissed as "bland", not euphoric. The back with a vengeance. Rather than just one. South Korea's second biggest manufacturer of cars has confounded its critics by launching three new models.

The Lanos, Nubira and Leganza are just the start of a blitz of new products. Daewoo, which is part of one of Korea's biggest industrial conglomerates, is determined to diversify into luxury models, multi-purpose people carriers and possibly off-road sports utility vehicles, to shake off its dull and down-market image.

The three new models represent a change of quality, as well as quantity. They contrast with the Nexia and Espero, Daewoo's two current war-horses, which are based on previous- narrowed the gap on Hyungeneration Opels built by dai, the leader. General Motors, its partner until an acrimonious bust-up in which the Lanos, Nubira in 1992. The Tico, a mini-car and Leganza were all on is based on a Suzuki.

woo's workaholic group chairman, decided that all future models would be developed in-house.

Foreigners have been Mr Giorgetto Giugiaro, the Italian who has helped create some of the world's most stylish cars, designed two of the new models. IAD, the UK sultancy part bought by Daewoo in 1994, engineered one.

Early reactions to the new models, which will be intro- lapses this year. duced progressively in Europe from next month,

By Michiyo Nakamoto

Honda Motor is considering

cutting production next

month to cope with the

worse than expected decline

in demand following an

increase in Japan's con-

Honda, which has been

sumption tax in April.

in Tokyo

Daewoo has powered praise has gone to the Leganza, the biggest of the trio, comparable in size to a

> Rover 600. The new cars have not arrived a moment too soon as far as Korea is concerned. New passenger car registrations in the country, which rose 7.8 per cent last year, fell from 288,000 in the first quarter of 1996 to just under 226,000 in the same period this year.

> By contrast, Daewoo's new vehicles, which have been introduced progressively since last November, lifted group sales to more than 69.000 cars in the first quarter from 63.000 last year. Helped by its new products, Daewoo has overtaken Kia Motors as the country's second biggest brand and has By April, the first month

not sold in western Europe, sale, Daewoo's 1997 market share had climbed to 35 per After the divorce from GM, cent. 10 percentage points Mr Kim Woo-Choong, Dae- behind Hyundai, and well ahead of Kia Motors - in which Ford and Mazda have significant stakes - which was languishing at 20 per cent. During 1996, by condrafted in where necessary. trast, Daewoo's share had been 23 per cent, compared with 49 per cent for Hyundai

and 28 per cent for Kia. But Daewoo has not been immune to slower sales and automotive engineering con-rising interest rates, which have overshadowed the Korean economy after some spectacular corporate col-

The recent opening cere-

the Japanese car market

over the past few years, said

the impact of the tax rise,

from 3 per cent to 5 per cent,

had been greater than fore-

cast. It may halt additional

production on holidays

scheduled for July to meet

"The reaction to the

its order backlog.

one of the best performers in increase in the consumption

tax was greater and has

lasted longer than we expec-

ted," Honda said. The com-

pany's sales fell nearly 5 per

cent in April and 3.4 per cent

Honda's plan to cut pro-

duction highlights the plight

of the Japanese industry fol-

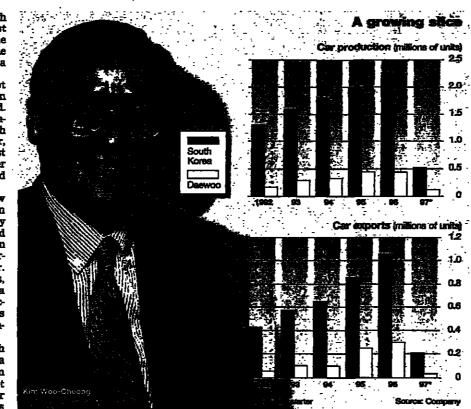
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in May, following a 7 per

cent rise in March.



Hyundai Motor of South Korea has been with its rising inventory, reports AP-DJ.

the part of Daewoo's nor- be the sharp rise in Dae-

Kia Motors, on Monday put off paying back cutting production in its main plant to deal Won130bn (\$146m) of promissory notes, with its rising inventory, reports AP-DJ. owed mainly to banks. "We had a tempo-The carmaker's inventory stands at 30,000 rary cash-flow problem, as other companies units, compared with a target of 15,000. are experiencing. But we now have no Meanwhile Asia Motors, an affiliate of financial troubles," said Asia Motors.

he said.

mally hyperbolic spokesmen. woo's planned foreign out-Rather than referring to put, following a string of small multi-purpose vehicle future expansion at the recent acquisitions in east-similar to Renault's Mégane plant - adding 600,000 units ern Europe and Uzbekistan. of capacity had been men-

Visitors to April's Seoul tive saloon. tioned previously - the com- motor show had a foretaste

lowing a buying spree before the tax increase.

At that time, Japanese car

companies were throwing

money at consumers to buy,

said Mr Stephen Volkmann,

analyst at Morgan Stanley in

Tokyo. The yen's 17 per cent

decline against the dollar

provided windfall profits

which enabled the car com-

car plant demonstrated modest 300,000 units a year replacement for the Tico, in uncharacteristic reticence on first phase. One reason may the form of the Matiz concept car. The following year will bring both the U100, a Scénic, and the Shiraz execu-

For 2000, Daewoo has penmony at its massive Kunsan pany spoke only of the more of the M100, next year's cilled in the even bigger

Now the industry is suffer-

ing a backlash. Toyota,

Japan's largest carmaker,

saw registrations fall 16.6

year and 8.8 per cent in May.

Nissan's domestic sales

per cent in April year-on-

Haig Simonian Honda may cut output after tax hits home sales

panies to boost incentives, per cent in April and 14.7 per

cent in May.

Overall, the industry has suffered double-digit falls in domestic sales, down 15.1 per cent in April and 10.9 per cent in May, according to the Japan Automobile Manufacturers Association. Anadeclined 5.5 per cent in April lysts say demand is unlike while Mitsubishi's fell 32.3 to match output increases. lysts say demand is unlikely

## Australia to the goldfield region.

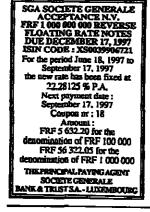
An Feng merger wins approval Shareholders in Kingstream, the small Australian mining

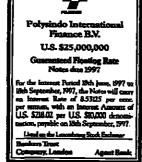
per cent of the combined group. and Steel" project, which envisages using iron ore from

U.S. \$150,000,000 中国人民建设银行 The People's Construction Bank of China

Floating Rate Notes due 1997

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Period from June 19, 1997 to December 19, 1997 the Notes will carry an interest Rate of 6.4879% per numm. The interest payable on the relevent interest payment date. December 19, 1997 will be U.S. \$32.98 per U.S. \$1,000 Note and U.S. \$3,244.53 per U.S. \$250,000 Note. By: The Chase Manhatten Senk London, Agent Bank O CHASE



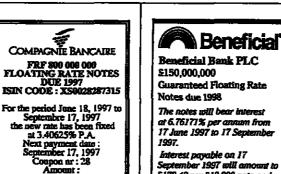


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March 1997



## Gencor takes its place on the world stage Telecom Italia sees

South African conglomerate shakes off legacy of isolation with a UK listing for its valuable base metals assets

that Gencor, a diversified South African conglomerate with interests ranging valuable assets to a new in the market price of Gen-London-listed company ranked in the top half of the FTSE 100, would have been fanciful

The obstacles to such a transformation were as ium producer, from Royal daunting as those that Dutch Shell in 1994. threatened South Africa's political transition from enlarged to house all Gen-apartheid pariah to open cor's base metal interests. market economy. Neither process is yet complete, but yesterday's announcement that Gencor will list its base metals operations in London, where they will form the hub of a new group to be known as Billiton, is the most striking example yet of a local group shaking off the

The move follows months Brian Gilbertson, Gencor most concrete evidence yet of the South African govern- abroad. ment's oft-stated commitment to abolishing exchange controls. The worldwide a higher market rating for remarkable deal of progress scramble for new mining assets that Mr Gilbertson in the confidence of the prospects, particularly in Asia and South America, has ued in Johannesburg. These prompted a variety of include the Alusaf aluminreforms at other South Afri- ium smelter in KwaZulu a very good understanding

our years ago, few can mining groups. But none could have predicted has travelled so far - geographically and strategically - as Gencor.

The metamorphosis began from mining to consumer in 1993, when Gencor was goods, would develop an unbundled from Sanlam, the international base metals South African life assurer, portfolio with a market and disposed of its non-minvalue of \$7bn. To suggest it ing investments. The would then split itself into restructuring removed the two and transfer its most discount to net asset value

cor shares, and paved the way for international expansion. This began with the \$1.2bn acquisition of Billiton. the London-based alumin-Billiton will now be

spanning aluminium, coal, mineral sands, nickel, steel and ferro-alloys. The new company will

also hold 56 per cent of a new nickel business to be formed by merging Gencor's nickel assets with QNI, the Brisbane-based producer.

free the group from the constraints of exchange conof political lobbying by Mr trols, which have forced South African mining chairman, and provides the houses to seek elaborate stake in Richards Bay Minermechanisms to raise funds

No less important, the new structure is likely to secure for the move reflects "a believes have been underval-



The Billiton listing will Brian Gilbertson: move follows months of political lobbying by the Gencor chairman

Natal - the largest single that mining is different from ing to raise about \$1bn smelter project in the world - and Gencor's 50 per cent als, the world's lowest cost producer of titanjum metals. The government's support authorities," Mr Gilbertson

said in an interview. "They

have a sympathetic ear and

other industries. Mining houses are now welcomed in would like Billiton to be in a over the next five years. position to act decisively." The seal of approval from

Mr Trevor Manuel, South Africa's finance minister. may have been clinched by the promise of new capital projects in the region. Mr

"three or four times what would have been possible for countries where we could a South African company" not go in the past, and we to fund new capital projects and is likely to trigger new

he first fruit of restructuring is likely to be a new aluminium smelter at the Mozarobican capital of Maputo. This Gilbertson expects the list- of the existing port, reviving Cape province, and ar

a colonial trading route for South African exports. The smelter will process alumina

Worsley, an alumina refinery in Western Australia. Other projects on the drawing board include a titanium minerals project in Mozambique, a zinc smelter in South Africa's Eastern

investment by Gencor in

at the Cerra Matoso nickel mine in Colombia.

Billiton is also exploring new nickel prospects in Indonesia, and will bid for a stake in the privatisation of state mining assets in Brazil

and Venezuela. The restructuring will ultimately sever all ties between the group's London-listed base metals operations and its precious metals interests. which will remain in Johannesburg. Gencor shareholders will receive new Billiton paper on a pro rata basis. and each company will have independent directors.

Mr Gilbertson does not rule out the prospect of Billiton developing a new precious metals business from London. Local gold interests have lagged the performance of Concor's base metals businesses, and the prospects for Impala, the platinum subsidiary, were hit by the Euro-pean Commission's veto of a merger with Lonrho Platinum. But he argues that Gencor's more focused structure will attract a higher rating for Gengold, its wholly owned gold mining subsidiary, which had been "buried" within the old Gencor.

The new structure will create what is believed to be the world's only listed gold and platinum combination. However, the outcome of that process remains the of speculation.

Mark Ashurst

## Merger of nickel assets with QNI confirmed

By Nikki Tait in Sydney

Heat at 1 to the Vitt AS 20th &

VICTORY

Gencor announced yesterday it would merge its nickel assets with QNI, the listed Australian company which operates the large Yabulu refinery in Queensland, to create the world's fourth-largest nickel producer.

The merged entity, which will be quoted on the Australian Stock Exchange, will have a production from Australia's Foreign Investcapacity of about 60,000 tonnes a

share price, its stock market capi- yesterday it hoped to complete the talisation will be about A\$2.3bn

Under the deal, QNI will acquire the businesses which make up Gencor's nickel division. It will then issue between 504m and 525m shares to the South African group, giving Gencor a 55-56 per cent interest in the enlarged

The deal is subject to approval ment Review Board, and also from

transaction by mid-August. Mr Wyn Davies, QNI's manag-

ing director, will become chairman of the new company, with Mr Max Roberts, QNT's current chairman, retiring. Mr Mark Salamon. Gencor director with responsibility for the nickel division, will be deputy chairman and Mr Chris Pointon, chief executive of Gencor's nickel division, will be managing director.

Mr Davies yesterday described QNI shareholders. However, the the deal as a "merger of comple-Based on QNI's pre-merger Queensland-based company said mentary businesses which will

gain from their combination". The stake in a joint venture with Hays nickel project, and a 37.5 per product range, the companies

QNI's main activity is as a "toll refiner", processing imported nickel and cobalt ore, mainly from Indonesia, New Caledonia and the Philippines. However, it has recently expanded its alliances in New Caledonia, agreeing last year to explore nickel tenements in the southern province with Noumea

increased scale and a broader to acquire tenements in the north-Gencor and QNI are also

> where - together with the stateowned PT Aneka Tambang - they have been looking at new ore deposits and an integrated nickel and cobalt processing facility. Gencor's nickel division, mean-

while, has a 50 per cent interest in the Lake Johnston joint venture in Western Australia, which

merged group should benefit from Société des Mines de al Tontoua cent stake in the "Roundtop" joint venture, which includes the Emily Ann nickel prospect. In addition, Gencor owns 98.9

already associated in Indonesia, per cent of the Cerro Matoso integrated nickel mine and smelter in could be replaced with oth-Colombia, with output of around ers after privatisation. This 30,000 tonnes a year. Expansion could lead to eventual may lift this to about 50,000

QNI shares had been suspended on Tuesday at A\$2.68, and did not trade either before or after yesterday's announcement. They are QNI also took a 67 per cent includes the prospective Maggie due to resume trading today.

Stet-Telecom Italia, the recently merged Italian telecommunications company due to be privatised in October, appears confident it will reach a strategic partnership with AT&T, the US telecoms group, by the end of this month.

The Italian group has been negotiating an alliance with AT&T as part of its international operations ahead of its privatisation.

If the negotiations are successful, AT&T is expected to become a core shareholder of the new Telecom Italia, as the merged company has been named, when it is privatised in the autumn. The government plans to float 30-35 per cent of the telecoms group and place

strategic core shareholders. AT&T's role as a core shareholder would provide international partner, and also a "white knight" in the event of a hostile bid after privatisation.

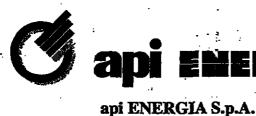
There are fears of such a bid because the government's "golden share" - giving it powers of veto on straprivatised telecoms group will disappear after three

The Italian cabinet yesterday approved the decree for the privatisation of the telecoms group, which will involve a public offering and a private placement to establish the core of stable shareholders.

which through the Treasury owns a 44.8 per cent stake in the merged company, said individual core shareholders changes in the control of the company.

The government said yesterday that the core would not "compromise competition for control" of the

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#### COMPANIES AND FINANCE: THE AMERICAS

## US jitters hit Goldman profits Mannix

By Richard Waters in New York

the US stock market this spring has led to a sharp ings for their shares and the slow-down in earnings at the leading US investment in stock and bond markets. hanks, if figures reported vesterday by Goldman Sachs

are a guide. However, Goldman's pretax earnings of \$610m for the second quarter still leave April were somewhat less Wall Street's most prominent private partnership on business," he added, as US track to produce record earnings for 1997 as a whole.

Goldman, like other Wall Street firms, had a powerful

start to the year on the back earnings, for the three past six months still leave it flood of initial public offer-of the continuing mergers months to the end of May, on course to exceed the ings. "The environment is and acquisitions boom, the The bout of nerves that hit scramble of US companies seeking initial public offerbuoyant trading conditions

However, only the buoyant M&A business was equally strong in the second quarter, said Mr John Thain, chief financial officer. "March and good months in the trading share prices fell and bond market investors became

The bank's latest pre-tax

were about one-third below the \$905m of the previous already topped the amount it period, which was the second-best quarter in Goldman's history. Revenues were \$283m lower at

\$1.674bn.

The performance also represented a decline of 14 per cent from earnings of \$709m for the same period in 1996. As a partnership, Goldman reports results before deducting compensation to its 190 partners, and before

Despite this, the bank's earnings of \$1.52bn over the

record \$2,66bn of 1993. It has made in the whole of 1995.

Goldman's results act as a curtain-raiser for those of and low interest rates." other investment banks whose earnings also vary with the ebbs and flows of the financial markets.

This time around, though,

its earnings decline could be more marked than those of banks whose financial periods end a month later. These banks will benefit

rebound to new records this month, as well as a renewed

very strong," said Mr Thain. "We continue to see great strength in the stock market. (as well as) low inflation

Goldman is widely acknowledged to be one of Wall Street's more profitable | in Toronto investment banks.

Morgan Stanley, which had equity capital of \$6.5hn at the end of last year, notched up pre-tax profits of \$1.6bn during 1996. Goldman earned \$2.6bn on a capital from the US stock market's base of \$5.2bn in the same period, though the figure is before payments to partners.

## to sell of assets

By Bernard Simon

Calgary's secretive Mannix family has put its extensive coal and energy assets UD for sale with an estimated value of about C\$1.5bn (US\$1.08bn).

Loram, a Mannix holding buyers for Manalta Coal, ducer, and Pembina, an oil sizeable pipeline network in Alberta

Two grandsons, Ron and

Several other western Canadian resource groups have brought in outside investors over the past two years through the creation of publicly traded "royalty income trusts".

These trusts have, until

Mr Lorne Gordon, Loram's business interests".

company, has retained RBC Dominion Securities to seek Canada's biggest coal proand gas producer with a and British

Manalta's eight mines produced 25.8m tonnes of coal last year, or about one-third of Canada's total output.

Pembina was at one time public company, but the Mannix family bought out minority shareholders in

The Mannix empire has its origins in a construction business started by Mr Fred Mannix in the 1920s, and passed on to his son, who died two years ago.

Fred, now oversee the family business, which also includes a venture-capital arm, and a railway maintenance and equipment group with operations in North America. Europe and Australia.

At a rare press conference, Mr Fred Mannix said the decision to spin off Manalta and Pembina was prompted by "a strong market for sound investment opportunities in companies like these"

recently, provided a high return to investors from the underlying assets' cash

chief operating officer (who is not a Mannix family member), said proceeds from the sale would be re-invested after a review "of our future

According to a 1977 profile by Canada's Financial business philosophy is: "Own it. Watch what's happening. No dividends. Plough the money back in. Develop. Expand. Acquire. Know a few [people] in finance and government with whom you can reason. Gordon Cramb Be honourable. Be quiet."

In fiscal 1996 net income

was \$636m, or 95 cents a

Software licence revenues

cent in the fourth quarter,

with applications software

the introduction of Oracle8

and will also feature the

the business. Potential buy-

ers are believed to include

By selling Thermo King,

Westinghouse would also be

the tax losses it built up in

and would have the cash to

General Electric.

Fiscal 1998 will begin with

up 78 per cent.

#### AMERICAS NEWS DIGEST

## \$1bn bond backs Venezuela project

A billion dollar transaction for a heavy oil project in Venezuela has underlined the growing importance of international bond markets in funding infrastructure projects in developing countries. The \$1bn bond issue to provide part-mancing of the \$2.5bn Petrozuata heavy oll project in Venezuela was agreed late on Tuesday and is the second largest project finance bond to date. Credit Suisse First Boston was the lead manager to the

issue. The largest such bond to date has been the the \$1.2bn raised last December for the Ras Laffan Liquefied Natural Gas plant in Qatar. The Petrozuata project, a joint venture between Maraven, a subsidiary of PDVSA, Venezuela's state oil company and Conoco, the US oil giant, is being developed to exploit Venezuela's largely untapped heavy oil reserves in the Orinoco belt.

Petrozuata's sponsors elected to go for bond financing in an effort to minimise the amount of bank financing required and to eliminate a need to secure expensive political risk insurance.

The bond was carried out in three tranches: a 12-year \$300m tranche priced at 120 basis points over 10-year US Treasuries; the largest – a \$625m tranche – which was priced at 145 basis points over 30 year Treasuries with a final maturity of 20 years; and a final tranche of \$75m. This was priced at 160 basis points above 30 year Treasuries and has a 25.5 year maturity, the longest final maturity for a project financing.

#### Further delay for Banerj sale

A delay in the Brazīlian Senate is likely to hold up the planned privatisation of Banerj, the Rio de Janeiro state bank, until at least today. Before the auction can take place, a special Senate committee and then the full Senate need to approve details of the sale, including a R\$2.9bn (US\$2.7bn) loan from Caixa Econômica Federal, the federally-owned bank, to cover Banerj's pension-related

The Senate committee had been due to meet on Tuesday to discuss the loan. However, insufficient members turned up for a vote to be taken. The next scheduled session of the committee is today. Political analysts said that approval in the Senate could not be guaranteed, and further delays could also be caused by a number of legal actions against the sale.

Baneri was due to have been sold at an auction on the Rio de Janeiro stock exchange on Tuesday for a minimum price of R\$310m. The Rio state government expects four banks to bid – Bradesco, Banco Itau, BCN and Banco Pactual, a local investment bank, on behalf of an Geoff Dyer, São Paulo un-named client.

#### **Battle looms for Corimon**

Shares in Corimon, the Venezuela paint group which recently returned to profit-making after a rescue plan including aggressive restructuring and a debt for equity swap, continued a recent sharp rise yesterday as speculation built over a potential takeover battle.

"There appear to be two groups buying up shares in an attempt to control the company," said Mr Boris Molina, an analyst with Deutsche Morgan Grenfell in Caracas. One of the two groups is said to be led by Mr Victor Gill and his brother Carlos, shareholders in the local Interbank and one of many former creditors of Corimon, who acquired a stake of Class B shares in the company

through a recent debt for equity swap. Mr Carlos Gill is estimated to have accumulated 30 per cent of the shares. Analysts suggest that a second group has formed around Mr Francisco Layrisse, the president of Corimon, who is believed to be seeking a management buy-out with the help of a strong local investor.

According to Mr Miguel Blessing, analyst with the Caracas stock exchange, there has been strong trading of Corimon class B shares in recent days. "Very large volumes of shares have been traded but the sha has increased only in line with the general market trend,

On Tuesday, Corimon shares traded at Bs17 (\$0.035) up from Bs12.3 two weeks before. Creditors acquired some 4.1bn preferential Class B shares convertible to Class A shares with voting rights at Bs10 as part of the debt for equity swap. Corimon's net worth is estimated at approximately \$114m. Raymond Colitt, Caracas

US paintmaker Sherwin-Williams has bought Chilean

paint company Pinturas Andina in the Cleveland-based firm's second major acquisition in Chile in the past year, Andina said. Sherwin-Williams bought Andina for an undisclosed sum and plans to wrap it into the US company's local affiliate, Sherwin-Williams Chile, Andina added. Sherwin-Williams confirmed it purchased Andina. It said Andina, which has sales of between \$10 million and \$20 million, produces and sells architectural coatings through independent dealers and 16 company-owned

#### BankAm in Polish fruit stake

BankAmerica and the European Bank of Reconstruction and Development will pay \$28m for a 41 per cent in Hortex, a Polish fruit and vegetable processing company. EBRD said yesterday it and BankAmerica would invest a further \$25m in the company over the next two years. The EBRD said Hortex will be listed on Polish equity markets within the next three years.

#### US healthcare groups merge

Value Health shareholders approved a proposed merger with Columbia/HCA Healthcare Corp. Under a deal first agreed in in April, each Value Health common share will agreed in in April, each value result common snare will be exchanged for \$20.50 cash under an amended and restated merger agreement. Value Health said yesterday the merger would be completed by the end of the second quarter. Value Health provides speciality benefit programs to large corporations, insurance carriers, managed care organisations, and federal, state and local AP-DJ, Avon, Connecticus

#### Mexican road phase complete

Mexican construction company Grupo Mexicano de Desarrollo announced yesterday the completion of the first phase of a \$310m toil-road project in Argentina. GMD said the first phase consisted of the widening, remodeling, and upgrading of 46 kilometers of existing highway. The second phase will consist of building an additional

9km of highway. Construction has begun and is expected to conclude in October 1998. GMD said that with the conclusion of the first phase.

the Argentine government authorised toll charges for the section of completed highway. It said tolks charged would equal \$0.60 per km for cars, with higher tolls charged for

## Philips and Lucent late at the party

Venture leaves groups well-placed as battle looms over mobile phone standards

Digital mobile phones: estimated market share

Philips of the Nether-lands, Europe's biggest consumer elec tronics group, and Lucent Technologies, the leading US telecommunications manufacturer, share one distinction in consumer telephony products. They dominate cordless phones - handsets which allow their users to roam a short distance from a fixed base station.

But cordless phones have yet to fulfil their early promise, while cellular mobile handsets, where neither company has much market share, continue to experience spectacular growth.

Motorola of the US, Nokia of Finland and Ericsson of Sweden are the market leaders in mobile telephony, followed by a clutch of European and Asian manufacturers. Philips and Lucent trail far behind.

This goes a long way to explaining why Philips and Lucent this week announced their intention to merge their consumer communications products divisions in a joint venture with \$2.5bn of revenues manufacturing mobile phones, corded and cordless phones, answering machines and screen phones. Some see it as a move born

of desperation. Success in the fast-growing mobile handset market is critical. Philips' decision to put its

telephone hardware business into the joint venture is the most striking evidence so far of its new top management's determination to "fix. sell or

Philips' move two years ago into mobile phones, based on the GSM digital standard, was initially

established big three. than doubled in the less needs industry pariners Sentiment has begun to change in recent months, however, as the group's Singapore-made mobiles have gained market share. The consumer communications division as a whole had 1996 sales of Fl 1.3bn (\$666m) and was projecting a near doubling to Fl 2.5bn this

year. Philips says more than 1m handsets have been sold. On its own, however, Philabsorb start-up losses associ- clear. ated with mobile phones for some time yet. As majority owner of the 60-40 venture, close" cash consuming activ- to be called Philips Conities. The Lucent deal is a sumer Communications, it will treat earnings of the

accounts. pete profitably with Nokia, the day and 18.2 per cent on displays for computers and stores.

than nine months since Mr Cor Boonstra took over as chief executive. His pledges to purge the "bleeders" from the organisation weighed more with investors than the slide into Fl 590m annual net loss announced in February, or his reluctance to delineate a future course for the group beyond cost cutting. But apart from the need to

ips would have had to so far made three things First, the group will not lightly go into further risky expensive development of

stem losses. Mr Boonstra has

New Jersey-based entity as phony as one of three activi- rental of phones. fully consolidated in its ties which, although cur-

they get a backlash."

After the market closed on

much as \$3% at \$50 in early

trading, before recovering

Westinghouse Electric, the

US media and industrial group, is studying plans to

sell its highly profitable

refrigerated transport busi-

ness in a disposal that could

By Richard Waters

The Lucent deal leaves its Navtech unit as the only stand-alone business in this category, but it is on a far smaller scale, with few

the industry standard.

across a range of sectors.

Flat panels were put into a

joint venture with Hosiden

of Japan, entailing a shift

from in-house technology to

or Lucent, the deal is an opportunity to revitalise its smallest and least profitable business enterprises involving the division. Revenues have been declining at about 7 per Second, it regards tele- shifted to purchase from

Ms Carleton Fiorina, presirently cash consuming, dent of the existing division, Philips shares closed at a remain at its core - the othregarded by analysts as record FI 137.80 in Amster- ers are in-car navigation decline also reflected the clohaving come too late to com- dam yesterday, up FI 8.90 on technology and flat-panel sure of Lucent phone centre

Ericsson and Motorola, the the week. They have more future TV screens. Third, it A principal problem will

blow their numbers out, is due to unveil its long- of users and almost any type

awaited "object-relational database" software, called

Oracles, demonstrated that

Oracle is gaining at the

expense of competitors such

"The fourth quarter repre-

pivotal year for Oracle," said

Mr Ray Lane, president and

chief operating officer. "The

database industry has con-

as Informix and Sybase.

be branding, Lucent, for-

merly the manufacturing

arm of AT&T, sells handsets

throughout the US but under

the AT&T brand. Lucent is

not yet a household name

and Philips is only a little

The merger is, however,

taking place at an important

iuncture for the mobile

phone industry. A global bat-

tle looms between two stan-

dards, GSM (favoured by

European and some Asian

countries) and CDMA

(favoured by the US and,

increasingly, Japan). But

ters of both technologies and

The new joint venture

may be a latecomer to the

mobile business, but it has

the company said yesterday.

60 countries are already

Revenues for the quarter

Full year revenue grew 35

solidated around Oracle's \$845m, or \$1.26 a share, software, and the much leadership." excluding a \$24m after-tax anticipated Network Com-

Oracle's next generation charge in the third quarter puter, said Mr Lane.

trialling the program.

against \$1.46bn.

sents the culmination of a reached a record \$1.95bn

Westinghouse mulls \$3bn sale

not yet missed the party.

Philips and Lucent are mas-

dard takes the honours.

better known.

Alan Cane

or amount of data, is now in share, excluding a separate

the final phase of testing, \$33m acquisition charge.

More than 1,000 customers in and related sales grew 26 per

per cent to \$5.68bn and net launch of a new applications

income was up 33 per cent at server, web site developer

Yesterday, however, the reap the highest value from

## Oracle shares fall sharply despite earnings rise

By Louise Kehoe in San Francisco and agencies

Shares in Oracle, the world's leading computer database software maker, fell 6 per cent in early trading yesterday after its earnings in the

fourth quarter to May 31 rities in New York. "A lot of failed to match Wall Street's times when tech stocks don't coming a week before Oracle supporting tens of thousands in fiscal 1996 net income more optimistic forecasts.

"They had a fine quarter

Tuesday, Oracle reported fourth-quarter earnings up THE THAILAND INTERNATIONAL FUND LIMITED International Depositary Receipts (LDRs)

but they didn't blow out the numbers," said Mr Joe Farinvestment bank UBS Secu-

ley, a software analyst at

35 per cent year-on-year, to \$359.9m. or 54 cents a share. from \$266m, or 40 cents, in the same period last year. That matched many forecasts, but fell short of some investors' expectations Ora-Morgan Guaranty Trust Company of New York cle shares were down as Evidencing Beneficial Certificates representing 1,000 Units

NOTICE IS HEREBY GIVEN to the Unitholders that the Thailand Inte

As of June 27, 1997 payment of coupon number 8 of the International Depositary Receipts will be made in US dollars at the rate of US\$200 per IDR less US\$0.50 depositary fees. Payments will be made at one of the following offices of Morgan Guaranty Trust Company of New York:

Avenue des Arts 35 Victoria Embanisment 60 Morgan Guaranty Trust Company of New York 35 Avenue des Arts, 1040 Brussels JP Morgan

> **EUROPEAN INVESTMENT BANK** ESP 20.000,000.000

> > Jinro Limited

U.S. \$30,000,000

0.35 per cent. Convertible Bonds Due 2009

NOTTICE IS HEREBY CIVEN to the holders of the Bonds that due to a rights same and huma stage articument by the Company, record dates the list December, 1995 and the 11th Istuaty, 1996 respectively, the Company Trace for the above lesse has been adjusted twee. In respect of the rights usue, the Convention Price for what or preferred shares of the Company pursuant to Clause 6 (c) of the Trust Deed had been adjusted from Won 21,325 to Won 20,112 defective from the 11th January, 1996. In respect of the bonts issue pursuant to Clause 6 (c) of the Trust Deed, the Convention Price has been adjusted from Won 20,113 to Won 18,114 effective from the 12th January, 1996.

**Capped Floating Rate Notes** Due 1999

Interest payable on 15 September 1,997 will amount to ESP 1,376 Madrid, 16 June 1997 BANCO CENTRAL HISPANO Paying and Calculation Agent

Banco Central Hispanoamericano, S.A.



#### The notes will bear interest at 5.44219% per annum for the interest period 16 June 1.997 (included) to 15 September 1.997 (excluded).

raise as much as \$3bn. The decision marks from a company that has pulled off a series of unexpected twists and turns over step in a process that has the last two years in its seen Westinghouse sell a attempt to rekindle enthusiasm for its battered stock.

from potential buyers for the transport business, Thermo King, which has long been regarded as one of Westinghouse's "crown jewels".

The Pittsburgh-based group announced late last year it would spin off Thermo King with its other industrial businesses during another change in direction 1997, leaving it as a pure media company. That would be the final

company revealed a change of heart with the announcement that it would keep Thermo King separate from the other industrial businesses it is spinning off, able to make use of some of which make power generation equipment and service the first half of the 1990s. nuclear power stations.

It also said it would keep repay part of the debt linked the unfunded pension liabilito its media acquisitions. ties, valued at \$1.2bn, that it had planned to shed with the

However, any delay in disposing of the refrigeration

business and paying off the

#### industrial businesses. variety of operations, while Mr Michael Jordan, chair- pension liability could hamman, said the switch would per Westinghouse's ambition buying CBS, the television The latest move has been give the company more flexibility in deciding how to market rating. network, and other media prompted by approaches businesses.

By Scott Morrison in Vancouver

PanCanadian Petroleum was announced by PanCanadian this poised yesterday to acquire CS morning is extremely aggressive Resources, a leading developer of and good for CS Resources shareheavy oil extraction technology, in holders, but far more than Guif is

Canada Resources. PanCanadian, the country's second-largest producer, emerged discussions with other companies as a white knight by announcing a to fend off Gulf's hostile bid. friendly offer for CS Resources,

would not revise its bid.

"Gulf believes the competing bid a C\$521m (US\$376m) deal, seeing willing to pay for the company," off a C\$413m hostile bid by Gulf said Mr J.P. Bryan, Gulf's president and chief executive officer.

CS Resources had said it was in from existing cash. Its board has approved PanCana-

PanCanadian poised to acquire CS Resources prompting Gulf to state that it dian's offer, which represents a 41 per cent premium to the group's closing share price on the day

before Gulf launched its bid. PanCanadian, which currently commodity. owns no CS Resources shares, has offered C\$465m in cash and will also assume C\$56m in CS Resources debt.

It will pay for the acquisition The deal is subject to two-thirds of CS Resources' shares being of engineers and geologists.

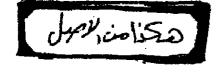
These are growing in importance dian crude dwindie.

PanCanadian said that it expected CS Resources to become the it would retain CS Resources' team

The two producers' interest in mated reserves of 132m barrels of CS Resources has centred on its crude oil and 44bn cu ft of natural heavy oil assets and its advanced gas, was seen by industry insiders technology in extracting the as being too slow in developing its oilsands properties in Alberta.

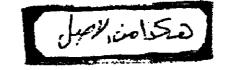
The company produced 13,000 b/d as conventional reserves of Cana- of oil and 11.9m cu ft a day of natural gas during the first quarter of

PanCanadian produced 141,000 b/ company's heavy oil arm, and that d of oil and natural gas liquids, and 726m cu ft a day of natural gas during the first quarter of this CS Resources, which has an esti-year.





it for five



for the rate of the assets, as a single entity, of the company described below.

රෙහිය වලය ශ්යාපාද ලේකාව න බා කරනය.

#### COMPANIES AND FINANCE: EUROPE

## Sibn bond back renevuela proje Gazprom hits back at government

By John Thornhill in Moscow

Gazprom, Russia's giant gas monopoly which is under pressure to pay an outstanding tax bill, hit back at the government yesterday, blaming Moscow's poor non-payment crisis afflicting the country.

The attack came as Gazpeople and to raise additional capital abroad.

Moulinex, the French

household appliances group

in which Mr George Soros,

the international financier,

is a leading shareholder, has

returned to the black after five years of losses.

The company yesterday

reported a small net attributable profit of FFr29m

(\$4.96m) for the year to

March 1997, spurred by

lower raw material prices,

favourable currency fluctua-

tions and sharply reduced

The figure was released

less than a week after Swe-

den's Electrolux, the world's

largest supplier of domestic

appliances, announced plans

It compares with a

FFr702m loss the previous year - the biggest in the

group's 60-year history. The

loss had incorporated a

FFr600m provision for a restructuring plan which was to have involved the

group shedding more than 20

2,600 condemned jobs were

nart-time working. Mr Pierre

FFr160m, on turnover down

By Andrew Jack in Paris

A new battle over minority

shareholders' rights is brew-

ing in France following the

abrupt removal of the head

of a small investment bank

controlled by state-owned

A group of North African

Paris, believes that Marseil-

laise de Crédit, which owns

the remaining two-thirds,

By David White in Madrid

duty-free group Aldeasa

company to be followed

Tabacalera is to buy 20 per

Spanish and international

institutions in September.

per cent of its workforce.

to cut 12,000 jobs.

ers, retaining Credit Lyonnais and Dresdner Kleinwort Benson to raise up to \$4.2bn of short-term finance. But a second tranche of

American Depositary debt - perhaps by restruct-Receipts would not be issued until next year, when the bonds. international share price had financial planning for the recovered from its recent turbulence, it said.

Mr Pyotr Rodionov, Gazprom deputy chairman, said prom officials detailed plans the government's "improto spin off peripheral busi- per" budget planning meant destine form into nesses employing 100,000 federal agencies did not have get," he said. the money to pay their gas and electricity bills, leading Gazprom confirmed it had to an accumulation of debt reshuffled its financial advis- in the economy.

Moulinex makes first

profit for five years

Gazprom was still owed promised Gazprom would more than Rbs70,000bn nonetheless pay all its out-(\$12.1bn) for gas it had standing tax bill by June 30, delivered, he said, and would seek to recover this uring it into long-term

"We should not deceive ourselves, our society and the world community by saying that we do not have a budget deficit while we are building this deficit in clandestine form into our bud-Mr Rodionov, a former

energy minister who has he said. been tipped to succeed Mr Rem Vyakhirev as chairman, accounts for 25 per cent of

global gas output, said it was enabling the government to pay back pensions and

"Gazprom has undertaken to repay its debt to the state and will do so by the fixed time," he said.

Mr Rodionov also rejected criticisms the company was taxed lightly, saying it had paid 25.7 per cent of all federal budget revenues last year. "Is that normal? It is unprecedented in the world,"

The company, which

hiving off its extraction and transportation businesses into separate limited liability companies, in a move to improve the transparency and efficiency of its operations.

It had also established Mezhregiongaz as a separate gas marketing company. with branches in more than 60 regions.

Mr Rodionov confirmed Gazprom would cut its workforce by 100,000, to about 300,000, during 1997 by demerging unrelated businesses, such as farms and

#### **EUROPEAN NEWS DIGEST**

#### Sparebankgruppen drops Fokus bid

Sparebankgruppen, the Norwegian savings banks group. yesterday dropped a hostile takeover bid for Fokus Bank, a smaller rival. Shares in Fokus, which had been carrying a substantial bid premium, plunged 13 per cent to NKr60 on the news. The NKr73-a-share offer had valued Fokus at

Sparebank's withdrawal followed opposition to its bid by Norway's parliamentary finance committee. It had objected to Sparebank buying Fokus share options in order to circumvent laws which bar investors from holding more than 10 per cent of a financial institution unless the stake is more than 90 per cent. By purchasing options. Sparebank built up a holding of more than 50 per cent in Fokus. Mr Knut Ravna, Sparebank chairman, also criticised the committee's proposal earlier this week to tighten the implementation of rules which require 90 per cent acceptance for a takeover bid in the financial sector to succeed. He accused the committee of changing the rules, adding it meant that "big, well-capitalised foreign financial institutions will be able to take a 10 per cent tactical stake in Norwegian financial institutions and

Commission urged Sparebank on Tuesday to drop its bid because it was unlikely to gain acceptance from 67 per cent of shareholders - the minimum required to force changes in company statutes under Norwegian law.

banking activities through the purchase of Noris Verbraucherbank to create a new unit with a lending volume of DM3.6bn (\$2.1bn) and more than 100 branches across Germany. It will specialise in standardised loan and investment products for price-conscious customers wanting "easy banking".

customers through the acquisition of Noris, increasing its market for mutual funds, property financing, mortgage-linked savings products and insurance. The new bank will have its headquarters in Nuremberg, where Noris and Franken WKV are based, Noris's business is concentrated in southern and western Germany, while Franken WKV, which has 90,000 customers, has branches mainly in eastern and northern Germany. Andrew Fisher,

#### Olivetti sees lower losses

would still turn in a loss. Mr Roberto Colaninno, chief executive, told the annual general meeting the improvements in the company's information systems business would not be sufficient to cover losses in telecommunications and the costs of the holding

However, the group's overall loss would be lower than the L915bn (\$539m) consolidated net deficit of 1996. Mr Colaninno said the telecoms businesses were still at a start-up investment phase. However, he expected the Omnitel cellular phone venture to break even in 1998. He said Olivetti had no intention of selling any additional stakes in Omnitel, which it regarded as one of its most

Atlantic over the participation of France Telecom in Infostrada, Olivetti's fixed-line telecommunications venture. Infostrada is 67 per cent controlled by Olivetti, with Bell Atlantic owning the remaining 33 per cent. Olivetti's agreement with France Telecom envisages the French group acquiring a 49 per cent stake, with the other 51 per cent held through a new company 67 per cent owned by Olivetti and 33 per cent by Bell Atlantic.

#### Loan for Minoan Lines

Minoan Lines, the Crete-based passenger operator, has raised Ecul25m (\$111m) to help finance construction of two luxury fast ferries through a 10-year term loan at a cost of 125 points over Libor. The syndicated loan - the first to a Greek coastal operator - was arranged by Citibank, the biggest lender to the Greek shipping industry. Participating banks were ABN-Amro, Bayerische Vereinsbank, Christiania Bank, Landesbank Schleswig Holstein Girozentrale, Bank of Nova Scotia, National Bank of Greece and ETEVA, its investment banking subsidiary.

The deal for the new ships - which will cost a total of \$220m - was priced at about 50 basis points above recent syndicated loans to big Greek shipping companies specialising in freight transport. A banker involved with the loan said it was denominated in Ecus to avoid possible exchange rate fluctuations linked with the launch of the proposed single European currency.

#### Porsche in motorcycle link-up

Porsche has worked with the US company since the 1970s on the development of existing Harley-Davidson engines. It said the joint venture would be based at one of Harley-Davidson's US sites, with production starting in a few years. Based in Milwaukee, Wisconsin, the company also plans a plant in Kansas City. Last year, it produced nearly 119,000 motor bikes and earned net income of \$166m on turnover of \$1.53bn.

block necessary structural changes".

Norway's Banking, Insurance and Securities

#### Expansion at Vereinsbank

Bayerische Vereinsbank is expanding its domestic retail

Noris, which has total assets of DM4.1bn and 68 branches, will be combined with Franken WKV Bank, a Vereinsbank subsidiary with total assets of DM1.6bn and 44 branches. The merger will produce synergies of around DM130m. Vereinsbank is buying Noris from the Schickedanz group, which owns the Quelle mail order concern and Quelle-Bank, a direct bank. No price was

Vereinsbank said it would obtain a further 280,000

Olivetti, the struggling Italian information technology and telecommunications company, vesterday confirmed it expected to report improved results this year, although it

promising growth businesses. He also said negotiations were difficult with Bell Paul Betts, Milan

The worlds of sleek luxury sports cars and rugged motor bikes will be brought together with an agreement announced yesterday between Porsche of Germany and Harley-Davidson Motor Company of the US. The companies are setting up a joint venture - into which each will put \$10m of capital - for the assembly of engine components for Harley-Davidson motor bikes.

With regard to the management of MELITON, it is provided that commutates to independently the Manager towards four operators referring to the toward season following the trimater of season shall but the covers owner.

4. MARDAA 5 meters deep for each up to 45 meters in length with 166 benths, analysis for fresh water and electricity and buildings that are beauty A MARDA. S metres deep for rank up to 45 metres in length with 166 bentis, malera for fresh wased as a yack: club.

5. 18-hole golf courte over an area of 640 stremman, 9 terms courts and a borse rating club.

6. GALANI knowy brace: over an area of 2481 sq.es. with a guardhouse (252 ag m.) and a chapel.

7. Other autobary inexa. R. The right to collure the MARPNA mistallations, described above, according to a special permit is granted by public authorities care to per # o

CALLFOR TENDERS POR THE SALE OF THE ASSETS OF "TOURISTIKI GEORGIKI EXAGOGIKI SA - PORTO CARRAS"

OF THESSALONIKI, GREECE

ETHNELI KEPRALECU S.A. Administration of Assets and Liabilities, of the Chrystopallonaist St., Athens, Droce, as especing as Lapachetor of "PORTO CARRAS-TOLRISTIKI-GEORGIS! EXAGOGIS! SA". a company with its registered office in Thesasionals, Groce, this "Company", presently under special liquidations, as an on-going openent according to the provisions of Asticle 46s of Law 1802/1990, by wrote of Decision No. 915/1997 of the Themalonici Court of Appeal

and the Court of Appeal

and the Court of Appeal

BRIEF ENFORMATION

The Company was emathshed in 1963. On March 17th 1997 the Company was placed order special liquidation as an joing-on concern, in accordance with article 4th of Law 1992/90, as supplemented by art. 14 of Lay00391 and toudified subsequently. The objectives of the Company unclude loanes and hotel operations and in particular the establishment and running of tourns and both times, of tourns resorts at well as of ships employed for tourns purposes. Parthermore, the Company's objectives include the establishment and operation of farming agreembastness, of all types of agreedings and livestock homomers, the exposition of Greek products, the operation of expost histories in general, as well at any other tree of articles and to the standard of the

ASSETS OFFERED FOR SALE

The assets for sale melode the following, bracity described, tourns and undestrial metallations attuated at Posto Carras, New Marrasay, Challandia at a distance of about 125 km from Thesaslands, by the sea and over a soul west of 17,709,815 sq.m. approximately

I. SITHONIA BEACH. An A-class board with 336 both in 433 rooms and 20 unites. The board also includes 3 restourness, 3 burs and 2 remed shops. The board is under base to Casson Parin Carras S.A. from 1994 to 2016, which note a casino, established within the hotel building.

2. MELITON: A hoursy hotel with 627 bods in 425 rooms and 18 states. The hotel also includes 4 restourness, 3 burs and 10 remed shops.

3. VILLAGE DN: A B-class hotel with 178 bods in 75 stadies, 7 suites and 7 bappalows. The hotel also includes 1 restaurnes, 2 towerists, 3 burs and 25 remed shops. The bottle has been placed on a time-share basis and stays time-sharing comments have been convibed from 1991 to 2050. Both MELITON and VILLAGE DN: are under the management of GRECUTEL SA and will remain so used the anaetts are sold.

With regard to the management of MELITON, it as provided that communities to undertaken by the Manager invariats low operators referring to the

OFFERING MEMORANDUM - PURTHER INFURMATION:

TERMS AND CONDITIONS OF THE AUCTION

The salemin. Notary Public Mrs Issues Corrowagle-Bijest. No. 11. Tomiski St. The salemin. S4624 Tel. +34-31-27093. 27302. 287385 Fax 30-31-225772.

Officers should expressly state the officeed proce and the detailed terms of payment (in cash or mutalments, memoring the mamber of arabitments, the dates thereof and the prepared annual tenerest rate, if any i, in the event of not apecifying; a) the way of payment, b) whether the creducal annual micros and ci the interest rate, if any i, in the event of not apecifying; a) the way of payment, b) whether the creducal annual them stores and ci the interest and ci the interest and ci the interest and ci the officer process payment in the payment of an annual trees interest, this shall be calculated in relation to the outstanding amount and shall be payable on the slave of payment of each installment. Bishing offices submitted that it is also all the dates and the adjustment of the adjustment of offices shall be conducted in the date. Submitted of the slave and the conduction of offices in the conduction of the excepted one consisted. The offices shall be conducted the excepted one consisted of the obligations deriving from the sale contract.

3. Letters of Guitamine: Bending offices usual be accompanied by a Letter of Guitamine with the sample Letter of Guitamine with the smooth of the letter of Guitamine shall be remined after the algorithment of the adjustment of the payable of the algorithment of the payable of the algorithment of the payable of the letter of Guitamine shall be remined after the algorithment.

Leners of Contention while the research offer the adjustication.

4. Given that the Company is being auctioned as an on-going concern, it is clear that the quantity and value of stocks, fireshed products, raw materials and other corrects muchs thereafter "Correct Asserts") vary doily. Hence, these will be transferred as they are on the they of the augusts of

as sain of country.

Intercept persons they be informed of the actual level of Courest Assets until the industriation of their offer. The Liquidator and the Credit insperse the right to ask posential byors for a special immagement, pertaining to a possible increase in Current Assets following the submission belief of the submost prote to the signing of the countries. Foreign bytes reserve a simple right with regard to a possible reduction in Current Assets.

Submissions: Bandang officer suggester with the Letters of Gatarastee shall be submitted in scaled opsque envelopes.

outers. As highest bidder shall be considered the participant, whose offer will be judged by crecksors representing over 51% of the chains against the Company (the "Condition"), upon recommendation by the Liquidstor, to be in the best interests of all of the crecknots of the Company. For the purposes of evaluation, an offer to be paid instalments shall be assessed on the basis of its passent value to be calculated by employing a 10% amount discount interest rate. purposes of evaluation as over to be paid minuments into the successful on the tests of an present value to be calculated by employing a love monal discount interest rate.

8. The Lagurdator shall give written account to the highest bidder to appear on the date and place mentioned thereto and enterair the contract of rate in accordance with the arran contained in his binding offer and/or any other improved terms, which may be suggested by the Creditors and agreed upon. In the event of the highest bidder not complying with such obligation, the Lenter of Guarantee shall be forticated as a penalty. Adjudication shall be deemed to take effect upon exception of the comment and of the deed of payment of the price or in the case of credit, of the deed of payment of the deposit and upplementation of according, regarding the payment of the outpasseding amount.

the deed of payment of the deposit and unplementation of accurains, regarding the payment of the outstanding amount.

9. All costs and expenses of any mature, including any tax (auch as V.A.T.), dunes, contour daries, any charges in lateour of the state or than parties, which may need to be paid other than those exampled by the applicable law) in respect of the participation in the Auction, and the material of the auets officeed fasseby for sale countrie, as well as any other act prior or subsequent to the transfer of states whill be exclusively

bothe by the purchaser. 10. The Liquidasor and the Creditors shall have no liability not obligation whatsoever towards the participants in relation to any pot

continuous and the Collections and the continuous and the continuous and the collection of the officers or the appointment of the highest bodier or any decision to repeat of cancer the Auction or any decision whatsoever in connection with the proceedings of the Auction. The Liquidance or the Creditions shall have no lability for any legal or actual defects of the assets. Submission of binding offices also not create any rights, power or claim from this Call and/or their participation in the Auction against the Liquidator and/or the Creditors for any

In order to obtain a copy of the Officing Memorandum and any further information please contact the Liquidator "Ethnela Kephaleon SA, Administration of Assets and Liabilities", 9a. Chryssosphilotissus St. Athens 10560, Greece, 7el.: +30-1-323.14,84-7, faz.: +30-1-321.70 to (attention of Mrs. Martin Françakis). or the Liquidator's agent, Mr George Diminian, Foundini St. 9, Theusshookil, 7el. +30-31-568.626, +30-375-71221, faz. +30-21-237110, +30-375-71229

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the above named company ("the Company".

 the date for the resultation for payment up of capital in 13 June 1997; a statutory declaration and auditors' repor-required by section 173 of the Company' Act 1985 are available for inspection at the Company's registered office; and

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The deal marks a significant diversification for Tabacalera, which is 52 per cent state-controlled and is itself on the list for early privati-

Seppa, is to be offered to Repsol oil group. The Argen-

begun the privatisation of remainder of Aldeasa is sold.

stake by the state-controlled rities commission, the final

Hank to a Polish fruit sale

in hearing are group may

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Battle froms for Coring

the time the group would fall into the hands of a forneed for reforms.

In the event, 750 of the Pierre Blayau; had warned group might be taken over Penter

saved by moving staff to marginally from FFr7.79bn soon to launch a five-year

been cut by 15 per cent in

to FFr7.75bn. The group said bond to be quoted in Paris Blayau, chairman, warned at industrial production had and Luxembourg. Mr Soros appears to have the second half to reduce made a handsome paper eign competitor if it did not inventories. Gearing at profit since his investment became public last Novem-

ber. At that time, Moulinex Yesterday's result also fea-net consolidated debt, from shares were trading at little tured a tripling of operating FFr1.51bn to FFr1.11bn, and more than FFr110. They closed vesterday at FFr143 -Moulinex said it planned before the announcement.

accept within two years the March 31 stood at 80 per cent, reflecting both a cut in profit, from FFr54m to a FFr525m capital increase.

Battle looms over seats

holders.

has failed to meet its obligations to share boardroom days after the AGM. The dispute follows the decision by Mr Pierre Habib- mer treasurer of the Friends Deloncie, chairman of Mar- of Jacques Chirac club, and seillaise de Crédit, to appoint head of a professional associhimself chairman of GP ation in the banking sector Banque at the annual general meeting on May 30. That reduced the minorities' rep-

resentation on the sevenstrong board to just one another banker's nomination He did so after resolving not to renew the nomination loncle had attempted to take

Mr Abderrahmane Hadj-Nacer, the former governor of the Central Bank of Algeria who represented the interests of minority share-

on GP Banque board

His dismissal led to speculation that Mr Habiblinked to President Jacques investors who control 36 per Chirac, had made the move cent of GP Banque, based in to secure a job in case his Crédit was jeopardised by the victory of the socialists in the French general elec-tion, which took place two

Others say Mr Habib-De-

blocked by Mr Hadi-Nacer. Mr Habib-Deloncle vesterday denied any political motivation, and said he had not renewed Mr Hadi-Nacer's appointment because of "differences" over GP Banque's

and his efforts were partly

wanted it to co-operate more

closely with Marseillaise de

He argued that his

appointment was only a tem-

porary measure and said it

was up to the minority

shareholders in GP Banque

at a meeting to be held on

July 7. However, he was not

prepared to accept Mr Hadi-

Nacer's renomination and

bility that he might remain

in charge if no suitable can-

The dispute could now

didate was found.

Deloncle, who is closely strategy, adding that he position at Marseillaise de to nominate a new chairman

Mr Habib-Deloncle is a forlinked to the Gaullist party. He was appointed shortly after President Chirac's election in May 1995, after

minority shareholders to force Marseillaise de Crédit of the incumbent chairman, a hands-on role in the daily to buy out their stake. Spain embarks on sale of

duty-free group Aldeasa holding for Ptall 34bn around Pta50bn, has 100 air-(\$77.5m), plus an additional port shops in Spain, with Spanish authorities have sum to be set when the operations in the same sector in Venezuela, Chile, Portugal and Morocco. It also Under terms submitted

Tabacalera tobacco price of Tabacalera's stake will be based on the instituby a separate public share tional share price set in September, plus 22.5 per cent. The sell-off is part of the had "very encouraging domestic growth prospects", cent of the company cur- Spanish government's plans rently held by the national to speed up privatisations, backed up by rising passenairport authority Aena. The taking advantage of the ger air traffic and expanding remaining 80 per cent, strong investor interest

> as adviser for the Aldeasa Aldeasa will continue to operate under an agreement with Aena giving it an exch. Madrid. sive concession for duty-free

through the acquisition of a yesterday to the CNMV secu- runs shops at Spanish museums and has interests in other activities including air cargo and handling, catering Tabacalera said Aldeasa

sales space. • Cofir, the Madrid-based owned by the finance minis- aroused by the recent large try's holding company offers in Telefónica and the holding company until last year controlled by Mr Carlo taria banking group is acting de Benedetti's Cerus group, has reached an agreement to buy the 34 per cent in hotel chain NH Hoteles it does not own agencies report from

The deal reflects Cofir's shops at Spanish airports to determination to refocus its The company announced the year 2006. The group, portfolio on hotels and win an agreement to buy Aena's which has annual sales of Pta8 yesterday at Pta625. portfolio on hotels and wine.

## Scottish Power in AA link

By James Buxton, Scottish Correspondent

The Automobile Association have the necessary systems will soon offer domestic in place. Full competition in energy supplies to its 6m gas is also due to come into personal members as part of a marketing alliance with Scottish Power, the multiutility energy group which supplies both electricity and

already provides a home assistance service to deal with electrical faults and faulty gas appliances. The alliance with Scottish Power will enable it to offer energy of gas and electricity markets comes into effect in the next few years.

By John Gepper, Banking Editor

banking arm.

operation.

Lord Alexander, chairman of National West-

minster Bank, has offered to

meet the bank's 12 largest shareholders to clarify Nat-West's strategy following Mr

Martin Owen's resignation

as the head of its investment

Lord Alexander has writ-

ten to shareholders in an

NatWest intends to refine its strategy for NatWest Mar-

kets, its investment banking arm, rather than to reverse

earlier efforts to expand the

Separately, NatWest is

expected to appoint a new

finance director for NatWest

Markets shortly. Mr Derek

Wanless, the bank's chief

executive and acting head of

NatWest Markets, wants to

strengthen financial and risk

reverses its strategy. Criti-

cism of the bank's senior

profits warning on Monday.

However.

By Patrick Harverson

Mr Amer AlMidani a

non-executive director of

£2,95m (\$4.8m) this week when he sold 500,000 shares

The sale of the shares at

590p each on Tuesday, which

reduced Mr AlMidani's stake

from 1.1 per cent to 0.33 per

in the Premiership club.

RESULTS

Manchester United, raised 1991.

NatWest chief

from April next year, though this may slip until early 1999 because few companies yet effect during 1998.

Scottish Power, which is based in Glasgow, aims to become the UK's leading multi-utility business and win an increased share of The AA, while primarily a the energy market. In the motoring organisation, past two years it has already provides a home acquired Manweb, the electricity company for northwest England and north Wales, and Southern Water, which provides water and sewerage in Sussex and supplies as the liberalisation Kent. It also has subsidiaries providing gas and telecommunications.

The AA will start making The domestic electricity joint offers of products availopen to full competition its members in its next quar- a very strong position. "The

terly issue of AA Magazine AA are, as their advertising in August, when full details of how it will offer energy products along with its other home assistance services will be revealed.

Scottish Power sees the well" alliance as extending its geographical reach and making its brand better known across Britain. It can provides gas to some Southern and Sussex of who are in a trial area for gas liberalisa-tion, but the AA deal will give it access to areas where it does not already have a subsidiary, such as the Midlands and Yorkshire.

Mr Duncan Whyte, the executive director in charge of the multi-utility strategy, said the alliance meant Scottish Power would be associmarket is due to become able from Scottish Power to ated with a brand which had will be used for selling

says, the fourth emergency service," he said. "They already carry out gas repairs. It is natural that they should supply gas as

The link between the AA and Scottish Power is a further example of companies forming alliances to exploit each others' customer bases. Water customers in Kent Utilities are anxiously watching a dispute between British Gas and the data protection registrar over the use of its database to send customers information about other products.

However, Scottish Power believes the link with the AA should not encounter problems of that kind since it is the AA's database, rather than its own, which

## European Motor in strategy move drives ahead

ther resignations, and will try to convince shareholders that it can restore NatWest Markets' earnings within an acceptable period to target tax profits from £6.67m to £8.76m (\$14.27m). Sales in the 12 months to March 31 rose 18 per cent to £390m.

Mr Richard Palmer, chief executive, said there had been a sharp fall in the number of cars being sold by manufacturers "pre-registered" to dealers, who The bank is likely to cut would then sell them on as

back in some areas of operations in an effort to raise returns, but it is likely to stick with the businesses it has bought over the past two years, which include corporate finance and bond trading arms.

disclose the results of an inquiry into the mis-pricing of interest rate options that Shareholders in NatWest led to the suspension in have privately expressed March of five managers in doubts at whether Mr Wan-NatWest Markets, and a loss less can continue as chief of £77m after taking into account reduced bonuses. executive if NatWest

NatWest will try to recruit a new chief executive for its management intensified this investment banking week after NatWest issued a operations within the next six months, and is expected NatWest to appoint an outsider.

believes it is unlikely to face By Christopher Price immediate pressure for fur-Firmer car prices and new franchises helped European Motor Holdings, the vehicle retail group, to report a 31 per cent rise in annual pre-

yesterday, but the shares

were believed to have been

disposed of in the market.

time when football shares,

including Manchester Unit-

on the stock market. Senti-

sector in the last few months

Lord Alexander has offered to meet investment institutions together with Mr Wanless and Mr Richard Delbridge, NatWest's finance director. Mr Wanless is not effort to convince them that expected to complete a review of NatWest Markets' strategy until August.

> nearly new models. The move had been made by manufacturers to clear excess supplies and the effect had been to depress both first and second hand Among the group's new

The bank will next week franchises was one for Volvo in the north-east of England, further extending European Motor's strong presence in the region. The group also won the Jaguar franchise in the Leeds and Harrogate UK franchise for Perodua, the Malaysian manufac-

cent, is the latest in a string

of disposals by the Lebanese

a director of United since

The latest sale means Mr

AlMidani has raised more

than £10m from selling

United shares since the

beginning of last year, when

his stake in the club was

worth more than 4 per cent.

3.03 0.215

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Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. 

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Alim stock. Aftereign Income dividend. 

ONly payable on shares lesued prior to Feb 7.

11.46 11.2 30.8L 25.9 4.22L 2.91† 14.6 1.35 2.26 54.6

EPS (a)

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Altributanie Etrologe (Em)

ssman, who has been



Richard Palmer: BMW was most profitable franchise

Benz. Profits from the retail division jumped by 50 per cent to £8.75m.

BMW was the company's most profitable franchise. However, the motor services business fared less well, with profits declining area, as well as the entire 27 per cent to £1.9m.

The division, which specialises in the supply and maintenance of car washing The company also has equipment, suffered from dealership arrangements the petrol price war with with BMW, Rover, Audi hard-pressed retailers seek-Volkswagen and Mercedes- ing lower service prices.

Since February, United

cent from a high of 733p.

5.75

another 11%p to 599p.

ations.

ed's, have performed poorly shares have fallen 18 per

ment has turned against the Yesterday, they slipped

#### Man United director cuts stake The buyers of Mr AlMidan- amid concerns about excesi's stake were not revealed sive valuations, overly optimistic forecasts of pay-perview television revenues, and overcapacity caused by His latest sale comes at a the glut of recent flot-

The regulators' concerns are unsurprising. Guinness and GrandMet claim that together they will enjoy a share of the world spirits market of just five per cent. But that catch-all includes a lot of unbranded local firewater which scarcely competes with the big boys' pre-

In reality, a merged Guinness/GrandMet would have a pretty hefty share of some of the world's most profitable markets for Scotch whisky, By combining Dewars, the top Scotch brand, with third-placed Johnnie Walker Red western vodka, and gin.

spirits and entertainment group, has been lobbying US regulators energetically to block the deal or ensure it is substantially modified. Allied Domecq, a UK-based rival, is doing careful sums on their merged market share - hopeful, at the very least, of picking up some Analysts believe Allied's

## Charterhouse chairman to stand down

Mr Victor Blank, chairman of the merchant bank Charterhouse, who is among the City of London's bestknown figures, is to announce today that he is stepping down after 16 years. and will seek a role in indus-

Mr Blank is to hand over control of Charterhouse, which is jointly-owned by BHF-Bank of Germany and Credit Commercial de France as well as its directors, to Mr Michael Hepher, the chief executive of

Mr Blank, who is deputy chairman of Great Universal Stores and a non-executive director of Williams and of Coats Viyella, is thought likely to seek a role as chairman of an industrial company as a way of rounding off his career.

Charterhouse established a strong development capital amd corporate finance business in the 1980s when it

onight, or perhaps

worked on transactions including Argyll's 1985 bid for Distillers. Together with BHF-Bank and CCF, Mr Blank has attempted to establish Charterhouse as a pan-European merchant bank which advises mediumsized companies on mergers and acqusitions. However, progress has been slower than was hoped.

Charterhouse's development capital arm has continued to be highly profitable. Mr Blank and 46 other senior managers with Charterhouse gained £12m (\$19.6m) from investing money in a management buy-out of Porterbrook, the rail leasing com-

pany. Mr Blank is thought to want to build on experience in the restructuring of industrial companies such as Woolworths and GUS as a non-executive director.

Mr Blank has been non-executive chairman of Charterhouse since the beginning of the year. He was previously both the chairman and chief executive, but split the roles was owned by Royal Bank of after recruiting Mr Hepher Scotland, and Mr Blank to take operational control.

#### LEX COMMENT

## Retail sales

The City is off to Ascot. consumers are awash with windfall gains, and retail sales are growing at the fastest rate since 1988. It all has a heady 1980s feel about it. The only snag is that this good cheer has mysteriously eluded the high street.

Certainly there is growth. but, with rare exceptions like Next, it is acceptable rather than exciting. Disappointed City analysts have been downgrading forecasts, causing the sector to underperform the market by nearly 20 per cent over the past year.

The reason is that volume gains have been bought with low prices. Thus the rate of growth in cash spending has been steady at around 5-6 per cent over the past year, reflecting a near total absence of price

Consumers are spending, but doing so unevenly. Much of their cash is eluding traditional high street outlets and going into restaurants, travel and DIY.

But there is also great resistance to paying higher prices: Blair man is a sober shadow of his tearaway Thatcherite counterpart, more inclined to top up his

Analysts and investors have been slow in digesting this reality. Had their initial expectations been more modest, they would be less disappointed. Now, though, is not the time to become enthusiastic about retail stocks; the high street remains competitive, yet strong consumer spending is likely to be met with higher interest rates and tight fiscal policy.

# savings than crack open the bubbly.

## Getting the measure of a very large Scotch and American

Ross Tieman on the expected Guinness/GrandMet inquiry

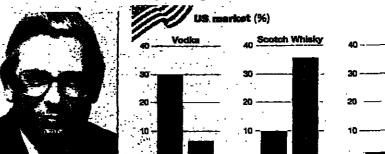
Concentrations that may worry regulators tomorrow, regulators in the US are expected to announce a thorough investigation into the £23.8bn merger between Grand Metropolitan and Guinness that would create the world's leading wines and spirits group. The European Commission

will almost certainly launch a parallel inquiry tomorrow. Like America's Federal Trade Commission, European regulatory authorities are concerned to ensure that the merger does not give GMG Brands, the merged entity, the power to rig markets in Scotch whisky, gin, and other spirits. Any decision to investi-

gate will come as no surprise to the merger partners. l'heir lawvers have been in almost daily contact with regulators on both sides of the Atlantic since the deal was announced on May 12. And they remain confident that it will ultimately be allowed - even if they are obliged to modify the terms, or dispose of some brands, in some markets.

optimism mium products.

Seagram, the Canadian and others, they would have



46 per cent of US Scotch

The merger partners argue

market shares than with the

prices are out of line.



may prove ability of any one competitor to dictate prices. So the FTC well-founded. According to a would want to look closely study by brokers NatWest Securities, using 1995 figures at the markets for Scotch, from Jobson's Handbook, an gin and vodka even if it were industry reference, GMG, to approve the deal - with or with brands such as Smirwithout conditions. noff and Gordon's Vodka Likewise, the European could command about 36.9 Commission's competition per cent of the US vodka

directorate is expected to take a very close interest in the degree of concentration in some markets. In the UK, there is little overlap between the two companies brands. But in Spain, Greece and Germany, GMG would command a large share of total Scotch sales.

that Scotch drinkers, for example, will quickly switch to bourbon, beer, or all manost analysts seem to believe the ner of alternatives if their merger's main virtue is complementarity, and The NatWest analysts believe the US authorities that therefore it will eventumay be less concerned with ally be approved. But clear-

autumn, from either side of the Atlantic. The European Commission

will declare its conclusions as soon as it has reached them, by October 27 at the latest. The FTC has no deadline, but has a record of seeking to resolve issues as soon as practicable. Its deliberations may last longer, but probably not by much.

Guinness and GrandMet will be able to argue their case with both sets of regulators and propose solutions to any concerns they may raise. The companies have earmarked about £10m for this critical campaign of per-

But if the merger's benefits are as real as they claim, that cash will quickly be recouped from efficiency gains if the deal is, ultiance is unlikely before the mately, approved.

A. A. S. A. S. C. S. C.

7.50 Mar 31 890 ..... 6 mths to Mar 31 21.52

... Yr to Mar 31

Notification of Annual General Meeting of Shareholders

AO Tatneft announces that its Annual General Meeting of Shareholders will take place on 27 June 1997 at 11:00am in the Palace of Culture, 98 Lenin St, Aimetyevsk, Republic of

Agends of the meeting 1. Approval of the Accounting Commission.

- 2. Report of the Board of Directors on the financial and economic activity of AO Tatneft in 1996. Approval of the annual report, balance sheet, profit-and-loss accounts, and distribution of profits and losses of the Company.
- 3. Statement of the Auditing Commission. 4. Report of the Company Accountant.
- 5. Splitting the shares of the Company. 6. Payment of annual dividends: approval of the amount,
- form and date of payment of dividends. 7. Amendments and addenda to the Charter of AO Tatneft. 8. Approval of a Regulation of the Board of Directors of AO
- Tatneft in new wording. 9. Approval of a Regulation of the Audit Commission of AQ
- Tatneft in new wording. 10. Election of the Board of Directors of AQ Tatneft.
- 11. Election of the Auditing Commission of AO Tatnett. 12. Approval of the Audit Commission.
- For more information, please telephone Almetyevsk (85512) 28943,

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The Financial Times plans to publish a Survey on

## Argentina

on Tuesday, July 1

For further information, please contact: Michael Geach in New York

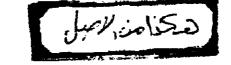
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#### **TECHNOLOGY**

#### Alice Rawsthorn on why the music industry would welcome a new audio format

## Hunt for a new tune

sk any record company L slobal music market, and it will almost certainly say "a new format".

In other words, a new medium compact disc which, since its debut in 1982, has steadily eroded the market share of vinvl and casseties to claim more than 80 per cent of the \$40bn-worth of disc has proved to be an wide last vear.

tronics industry to develop other formats, albeit with mixed success. Some have flopped, notably Philips's and Matushita's digital compact cassette, and even the most popular, Sony and Philips's MiniDisc, has found it hard to

Record executives are now pinning their hopes on another new format, DVD audio. Their latest medium is envisaged as a musical version of the digital versatile discs, which look exactly like compact discs but have far greater storage capacity that can be manipulated to relay film footage, text and interactive features, as well as sound.

When the music industry was presented with the initial technical specifications for DVD audio, it realised that the resulting product would not be sufficiently superior to compact discs. It has begun a search for new improved technology for DVD audio.

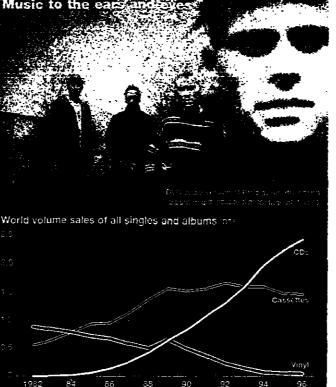
"The recording industry is vigwhat is the best thing orously campaigning for the that could happen in the highest-quality sound standard for the music of tomorrow," says Hilary Rosen, president of the Recording Industry Association of America, which represents the for playing music - such as the US record companies. "The current audio format for DVD is not acceptable as a new industry standard. We can do better."

The stakes are high. Compact recordings sold at retail world- extremely profitable product for record companies, because con-The popularity of the CD sumers not only purchased new encouraged the consumer electreleases on it, but also bought compact disc versions of their favourite old vinyl and cassette recordings.

Its success has been one of the chief contributors to the double-digit growth that the global music industry has experienced for much of the past decade. Similarly, one of the main reasons why music sales have slackened in the past year or so is because so many consumers have now completed the process of replacing their old vinyl collections.

Compact disc became so popular because it was undeniably superior to vinyl and cassette, in terms of sound quality and durability. Digital compact cassette failed because consumers were not convinced that it was better value than compact disc.

Both the electronics and entertainment industries believe that video DVDs, the first version of



just as compact discs were an advance on cassette tapes.

Tideo DVD, like every other version of digital versatile disc, contains up to four layers of information, each of which has higher storage capacity than a compact disc, and the difference between the various versions is the way in which that capacity is allocated.

much capacity is used to relay

sale, represent a genuine Some record companies plan to improvement on video cassettes, release video DVD versions of existing music videos, but it is not suitable for use as a musical

> Hence, the music and electron-ics industries decided to develop a separate DVD audio format which will combine film footage, text, interactivity and multiple channels, like video DVD, but says. with superior sound.

The resulting product is likely to resemble a sophisticated music In the case of video DVD, so internet site. The DVD audio version of The Fat Of The Land, the visual images to a far higher forthcoming album from the standard than video cassettes. Prodigy, for instance, might that the sound quality is slightly include film footage of the band, digital versatile disc to go on inferior to that of compact disc. or promotional videos, together

with song lyrics, interviews with the musicians and alternative mixes of individual tracks.

So far, the proposed technology for DVD audio has not met the record companies' requirements and they have identified three specific areas of improvement; The new discs must relay multi-channel sound, a souped-up

version of surround sound. • DVD audio discs should be playable on existing compact disc machines, and compact discs on DVD audio hardware.

• The discs must provide adequate protection against piracy. The International Steering Committee, which is composed of members of the music industry led by the US association and the International Federation of the Phonographic Industry, which represents record companies worldwide, now plans to find new technical specifications.

It will issue a formal request next month for proposals to electronics manufacturers and research institutes. Several electronics companies, including Sony, Pioneer, Matsushita and Kenwood, are already working on

DVD audio technology.
Once the proposed formats have been submitted, the steering committee will assemble teams of record producers and sound engineers to test them. David Stebbings, senior vice-president of technology at the US body, says tests will decide whether the technology meets the music industry's criteria. "It's all about deciding how much data you can get on a disc. and the quality of that data," he

The steering committee hopes to have selected suitable technology by the end of this year, with DVD audio hardware and software scheduled to go on sale two years later. It will then find out whether its technical efforts have produced a new compact disc, or another digital compact cassette.

customers about the payload on

Flight 502's objective, meanwhile, is to qualify the rocket for a dual payload so that Ariane 5 can routinely deploy two satellites on every mission.

In spite of the delays, no one at the agency seems worried about scaring off paying customers. "To the contrary," says Frederik Engstrom, the agency's director of launch vehicles. "They should have confidence that our system is so rigorous and stringent."

#### Worth Watching · Andrew Baxter



#### Motoring with metal matrix composites

Metal matrix composites encased in a metal "host" material – may finally realise their potential in allowing cars to meet US emission requirements, writes Carol

These materials are much stronger than the alloys normally used to make engine components. This allows higher compression ratios in the engine, increasing efficiency. Until recently, prototype

engine parts have been successfully manufactured as metal matrix composites only by an expensive process known as squeeze casting. Conventional casting leaves tiny holes in the finished

component which weaken it. Now a collaborating team of scientists from Liverpool University and the UK company Vernaware has solved the problem. Their patented process involves adding small amounts of bismuth to the alloy and increasing the speed at which it is introduced into the mould containing the nre-formed ceramic fibre.

The result is a material 15 per cent stronger than the parent aluminium alloy, and although made by conventional casting techniques, it still outperforms all existing metal matrix composites at typical engine operating temperatures. Adam Papworth, Liverpool University; UK, tel (0)151 7945377, fax (0)151 7944675 or e-mail: adamp@liv.ac.uk

#### Focus on the whys of the X gene

X" gene. They pass it on to

physical characteristics such as a long, narrow face and prominent cars - to the more serious - slight or severe mental impairment.

Fragile X syndrome gets its name from the broken appearance of the X chromosome when cells are cultured under specific conditions. It is incurable, and the most common cause of genetically inherited mental impairment in males.

The disorder is caused by the inability to produce a protein for which the gene contains the code. Little was known about the gene's mechanisms, but researchers at the University of Illinois in Champaign have found that the protein is synthesised in synapses of the brain – synapses are junctions through which nerve cells communicate. The findings should help researchers in their efforts to understand the University of Illinois: US. tel 2173331085, fax 2172440161 or

#### Ultrasonic sensor **bubbles under**

e-mail uinewsa-viuc.edu

When cyclists have a leak in an inner tube, they immerse it in water and look for bubbles. The same technique is often used in industrial quality control for parts such as gas fittings or pipes. Two of Germany's Fraunhofer Institutes have developed a gas-bubble detector which uses an ultrasonic sensor, rather than the human eye, to watch for bubbles and pinpoint the leak's precise position.

Klaus Dietrich at Fraunhofer Technology Development Group: Germany, tel 7119703620, fox

#### Clear picture of a counterfeit

A new weapon against forgeries of brand name products has been developed by Jerusalem-based Latent Image Technology. The product is branded with a high-quality picture that remains invisible until the retailer places a clear plastic material on it. The pictures are created with the same lithographic equipment used to make semiconductors. Latent Image Technology: Israel, tel 25322779, fax 25322673

## ore than a year arter a software failure led to the destruction of the

European Space Agency's first Ariane 5 launcher, it has targeted September 30 for an attempt at If the agency had simply corrected the software problem that occurred in the inertial guidance system, or primary navigational mechanism, the rocket could have been

relaunched within weeks.

Aerospatiale, Ariane 5's

Instead, following extensive

analyses of the 37-second flight.

## Ariane aims for confidence

industrial architect, went beyond the initial recommendations of the independent review board which was set up after the

"We asked every single contractor about everything they'd done," says Shirley Compard of Aerospatiale. "Another failure would throw off the commercial launch schedule. so we want to make sure that this time we get it right."

However, the extensive review has already forced the agency to postpone a second launch three times and the September date could also be pushed back.

Following new tests, the agency is about to make a precautionary change of Flight 502's main engine. This is because of an anomaly found during tests of a silver alloy lining in a similar liquid oxygen turbo pump on the engine

originally destined for Flight 504. The same alloy had been supplied on the 502 engine.

But the Ariane 5 series is still within the extra \$200m (£123.4m) it received from the ESA last December. While this does not come out of \$8bn from the overall development costs of the new series, it should be enough to see the programme through Flight 503. Talks are already taking place with potential

**Bruce Dorminey** 

One in every 1,000 women is believed to carry the "fragile their sons, and the results range from the prosaic -

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FINANCIAL TIMES

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#### INTERNATIONAL CAPITAL MARKETS

## Euroclear to settle US **Treasuries**

By Edward Luce

Euroclear, the international settlements house, has been given the go-ahead to undertake clearance and settlement in US Treasuries for non-US clients.

The decision, by the US Securities and Exchange Commission, comes into force from Monday - and opens up a \$1,000hn market to Euroclear.

The move comes just four months after Cedel - Euroclear's Luxembourg-based rival - started clearance in US Treasuries for both US and non-US participants.

Mr Denis Peters, of Euroclear, said vesterday the SEC decision was likely to be followed by an exemption that would enable Euroclear to settle T-bills and US agency securities for US clients as well. This would put Euroclear on an even footing with Cedel by opening up the full \$10,000bn in US government securities to the Brussels-based clearing house. About \$9,000bn of the Mr Peters. "We will be \$10,000bn worth of US Treasury and government bonds in circulation are held by US-based houses.

"This will opens up the most liquid and active class of securities to our clients," said Mr Peters. "It will enable them to deposit US eral and cross-collateral where in the world.

transactions." Euroclear, which has an were given permission in annual securities turnover March 1996 to settle and volume of \$35,000bn, would not estimate how much the move would boost its turnover, but said it would be substantial

bring in the new facility in three phases. First, non-US clients will be able to deposit US securities from June 23. Second, Euroclear hopes it will receive an exemption from the SEC for US-based participants later this year. Third, it will gradually intro-

ance in US agency securities within the next 12 months. The final phase, which will add 560,000 new securities to Euroclear's books, is considered the most difficult logis-

tically.

duce settlement and clear-

At present, Euroclear handles about 90,000 securities. including Yankee and global bonds. The addition of US government securities, including paper issued by the Federal Mortgage Agency (Fannie Mae) and the other big Washingtonbased finance houses, will more than quintuple the securities that can be deposfted at Euroclear.

"Obviously this will take some time to sort out," said updating our computer systems and looking at staffing levels to cope with this." Euroclear hopes to have in place a "real-time" settle-

ment capacity within 12 months - a significant improvement on the T+3 system currently in practice securities with Euroclear This will enable clients to and use securities for collat- settle instantly from any Both Euroclear and Cedel

clear UK gilt bonds. Most gilt clearance still takes place in London, but both houses say they have won

## Italy and Spain outperform in Europe

GOVERNMENT BONDS

By Michael Lindemann in London and John Labate in New York

Italy and Spain were the most remarkable performers among European bond markets yesterday, making what one economist described as a the spread over bunds lower "final quest for value" ahead of the proposed European single currency.

ITALIAN BTPs charged higher. The September BTP future settled at 133.08, up yield spread of BTPs over basis points to a record 126

"Everyone's convinced was still "a sizeable risk of a building society was clearly

that Maastricht is right blow-up in Germany" over too late to influence data, rumours that the Ifo busiaround the corner and they the size of an acceptable but it was difficult to work ness climate index, out are behaving accordingly, one trader said.

suit. Mr Henrik Lumholdt, tle at 116.60 while the yield chief economist at Bank of America in Madrid, said 3 basis points to 62 points. investors in Spain were making one last effort to drive in anticipation of Spain's much higher than expected, Emu membership.

"This is the final quest for lot of investors saw the 0.50, but headed to 133.30 in Amsterdam summit as the after-hours trading. The last hurdle, disregarding completely the problems German bunds tightened six that might still arise with budget deficits."

Mr Lumholdt said, there

budget deficit.

The September bono society conversions had con-SPANISH BONOS followed future picked up 0.19 to setspread over bunds tightened

UK GILTS, meanwhile, took a drubbing after May retail sales figures came in showing a 1.1 per cent month-on-month rise and a value before Emu is 100 per 5.3 per cent year-on-year rise cent discounted," he said. "A - in contrast to the anticipated 4.5 per cent increase. The Office of National Sta-

tistics insisted the windfalls from building society conversions had not influenced the May data. Analysts said the flotation of the Halifax

out whether earlier building today, would be lower. tributed to higher consumer spending.

Mr Kevin Adams, gilts analyst at BZW, said the data underlined the need for Mr Gordon Brown: chancellor, to come down hard on consumers in his July 2 budget, thereby pre-empting a further rise in interest rates.

settled at 113號, down 盐, while the spread of gilts over bunds widened eight basis points to 153 points, the biggest since Mr Brown granted virtual Bank of England independence in early May. GERMAN BUNDS edged upwards, cheered by

The September gilt future

Analysts suggested mar-

kets may also have derived succour from comments by Mr Franz-Christoph Zeitler. a Bundesbank council member, who insisted on strict adherence to the Maastricht budget criteria.

agreed on 3 per cent, they must, in the interests of goal," Mr Zeitler said. He also said Germany had a "realistic" chance of meeting the budget deficit criteria in 1997.

The September bund future settled at 101.34, up 0.02, but rose as high as 101.49 in after-hours trading.

US TREASURY prices rose sluggishly after a light morning. At midday, the benchmark 30-year Treasury bond was up 1 to 99, driving the yield downward to 6.697 per cent on thin volume. The 10-year bond was & higher at 1012, yielding 6.4 per cent, while the two-year notes issue was up i to 100 i.

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lar sun

\*Once the states have yielding 6.007 per cent. Central banks were regarded as leading buyers credibility, stick to that yesterday morning, following the dip in the market on the back of May inflation fig-

> "The banks have excess cash and are buying on weakness," said Mr Richard Gilhooly, international bond strategist at Paribas Capital Markets in New York.

## BayerLB launches 10-year \$1bn global

INTERNATIONAL BONDS

BayerLB, the German Landesbank, topped the bill in another frantic session of US dollar-denominated issuance yesterday. With more than \$4bn in new dollar issues and at least \$3bn expected today - including at least \$1bn from the Rus-

sian Federation - this week is expected to break all vulume records in the dollar BayerLB's \$1bn global bond was its first senior ing the global sector to find offering in a 10-year maturity and the first unsecured

global bond from a German

arrangers of the deal. reported strong take-up from

Landesbank.

central banks. But less than 10 per cent of the paper went to US based investors.

"Spreads on globals and eurobonds are quite a bit tighter than in the Yankee bond market, so it is difficult to tempt US investors along," said one syndicate official. The benchmark issue,

which was priced to yield 25 ing in their own name," said basis points over 10-year Treasuries, was trading flat to its re-offer price in the secondary markets after launch. "We expect to see a lot more Landesbanks enternew investor bases before the D-Mark disappears," said one trader.

BANQUE PARIBAS tapped Officials at Merrill Lynch the floating-rate market with and J.P. Morgan, joint a generously priced \$1bn five-year offering. Re-offered at a spread of 16 basis points Japanese and other east over Libor, the bond was Asian accounts, including well-received by investors.

rates a \$4bn Paribas funding programme over the next 18 months, was lead-managed by Paribas. The proceeds will help refinance forthcoming maturities, as well as short-term Paribas loan obligations.

"Banks always price deals cheaply when they are issuone investor. "They are very careful to ensure it is successful.

Mindful, perhaps, of that advice, MERRILL LYNCH launched the largest floater in sterling this year, a £300m five-year bond priced to yield 13 basis points over gilts. According to one official, the deal reflected investor uncertainty about rising UK interest rates and volatility in the main European currencies. and quickly tightened to a spread of 12 basis points

New international bond issues 99.5181 Jun 2007 0.325R 99.848R Jul 2002 0.15R 99.844 Jul 2002 0.45 99.824 Jun 2004 0.35R 99.794R Jul 2002 0.175R 99.925R Jul 2000 0.1875R 99.15R Jul 2003 0.255R 99.622R Jul 2003 0.275R 100.00 Dec 2002 2.50 BeyerLB New York Branch() Benque Peribest Wizard Financet American Express Co Beniers Trust NY Corplett Catelli Lord de Event 300 300 200 150 125 90 SNCF DSL Bank Macurich Cokijs 125 (7-779 10000 Seibu Department Stores#‡ 90 (e) 100.00 33,5bn 1.62 100.00 Merriti Lynch & Cot 99.768R Jul 2002 0.175R 99.272R Jul 2002 0.25R 300 100 GUILDENS ABN Arrico Hoses Gov ABN Amro Bank 400 6.125 ABN Amro/9GI 10bn (g) 100.00 100.00 Jul 2007 0.20

stated. Yield screed (over govt bond) at its SConventible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; +145%. b) 8-mth Libor +180p. c) Calebide from Jul 00 at per. c1) 3-mth Libor +856 premium 10-195%. Calebide effer 5 yes at per. c) 8-mth Libor +200p. f) 3-mth Lib h) R500m faunched 4/4/97 increased to R750m. f) Over interpolated yield. f) 1.c.

"The UK yield curve is offshore by Bank of Tokyo- according to an official at very flat after the recent Mitsubishi, issued the first interest rate rises." said a asset-backed deal of its type syndicate member. "It makes sense to tap the floating-rate sector in these conditions." WIZARD FINANCE, a special purpose vehicle set up ised by high-quality loans, pon of 1.6 percentage points.

by a Japanese bank. The Y93.15bn offering, split into \$525m and Y33.5bn threeyear tranches, was securit- yen tranche carried a cou-

Tokyo-Mitsubishi in London which led the deal. The dollar portion was offered at a spread of 18

basis points over Libor. The

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		Red		Dev's		Weak	Mon
	Coupon	Dete	Price	change	Yleid	ago	89
Australia	6.750	11/06	97.8198	-0.470	7.07	7.23	7,6
Austrig	5.750	04/07	98,6500	+0.020	5.90	5.97	5.7
Belgium.	6.250	03/07	103,1800	+0.010	5.61	5.87	5,8
Canada "	7.250	06/07	107.4000	-0.630	6.24	6.38	6.5
Denmark	7.000	06/07	104.7500	+0.040	6.36	6.26	6.3
Françe BTAN	4.750	03/02	100.4974	_	4.63	4.59	4,70
CAT	5.500	04/07	99.2100	-0.010	- 5.60	5.72	5,60
Germany Bund	6.000	07/07	102.0300	+0.020	5.73	5.80	5.7
ireland *	6.000	08/06	109,7900	+0.070	6.54	6.72	6,6
Italy	8.750	02/07	99.2000	+0.360	6.86†	7.05	7.2
Japan No 145	5.500	03/02	117.0547	-0.110	1.63	1.61	1,82
No 182	3.000	09/05	104.3124	-0.220	2.38	2.40	2.58
Netherlands	5.750	02/07	101.0800	+0.020	5.80	5.66	5,63
Portugal	9.500	02/08	121.1700	+0.210	6.25	6,43	6,55
Spain	7.350	03/07	107.0400	+0.200	6.34	6.51	6.67
Sweden	8.000	08/07	108,4882	+0.230	6.81	6.93	7.04
UK Gilts	7.000	06/02	99-27	-13/32	7.03	7.01	6.8
	7.250	12/07	100-27	-17/32	7.13	7.11	7.01
	9.000	10/08	113-27	-19/32	7.19	7.17	7,08
US Treasury *	6.625	05/07	101-14	_	6.43	6.55	6.75
•	6.625	02/27	98-25	-2/32	6.72	6.83	6.90
ECU (French Govt)	7.000	04/06	107,3200	-0.060	5.91	5.99	6.02
London clasing, "New Y	ork mid-da	,		YIN	de: Local	mericat s	tende
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**US INTEREST RATES** Treasury Bills and Bood Yields

**BOND FUTURES AND OPTIONS** 

Sep Dec	128.62	128.88	0.06	128.96			
Dec				120.00	128.80	102,503	201.3
	97,76	97.78	-0.08	97.76	97.78	2	1.57
Mar	97.76	97.78	-0.0B	97.76	97.76	2	-,
E LONG TI	RM FRE	HCH BON	D OPTIC	NS (MAT	1F)	_	
Strike		CAU	<u></u>			PUTS -	
Price	Jun	Jul	ı s	ep	Jun	Ju	Sep
125	2.89	3.0	1 3	.14	0.01	0.14	0.28
127	1,90	2.1	5 2	32	9.02	0.26	0.45
128	0.99	1.3	9 1	.60	0.11	0.51	0.72
129	0.31	0.7	7 1	.00	0.43	0.89	1.12
130	0.06	0.30	5 Q	56	1.18	_	-
Est. vol. total, (	Cafe 8,124	Pubs 13,550	. Previous o	tay's open	Int., Celle 138	3.081 Puts 14	S. 1488.

101.34 100.39 101.11 100.35 177219

Aug 0.11 0.32 0.70 Italy III NOTIONAL ITALIAN GOVT, BOND (BTP) FUTURES (LIFFE)\* Lira 200m 100ths of 100% Sett price Change Est. vol Open int. 133.08 +0.50 133.39 105.83 +0.40 105.90 132,31 105,90 58105 50 III ITALIAN GOVT, BOND 18TP) RUTURES OPTIONS (LIFFE) Line200m 100ths of 100% MI NOTIONAL SPANISH BOND FUTURES (METT) Sett price Change High

IF BUND FUTURIES OPTIONS (LIFFE) DM250,000 points of 100%

■ NOTIONAL UK GILT FUTURES (LIFFE)\* 250,000 32nds of 100% High Low Est. vol. Open int. Jun 114-15 113-28 -0-19 114-15 113-27 169
Sep 114-04 113-15 -0-19 114-05 113-12 85886
E LONG GRLT FUTURES OPTIONS (LIFFE) 250,000 64ths of 100% 169

Sep 1-36, 1-02 0-41 2-06 1-43 1-18 0-09 0-42 1-36 0-47 1-14 1-58 1-06 1-38 2-11 E ECU BOND FUTURES (MATIF) ECU100,000 95.46 441

■ US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100% 112-03 111-23 111-10 -0-04 -0-05 -0-04 13,788 32,170 374,961 411,188 322 25,130 Open

Est. vol. Open int. 1147 55 124.09 123.40 123.95 123.38 UK GILTS PRICES 591 8613 7.13 11343 7.08 592 7.14 1135 7.15 1293 7.16 1274 7.17 1094 7.17 1204 7.17 1204 7.17 1204 7.18 1334 7.17 1204 7.18 1334 7.11 1004 7.12 1004 7.13 1004 7.13 1004 7.13 1004 7.13 1004 7.13 1153 4.04 6.85 6.87 6.87 7.83 7.83 7.77 6.77 7.79 10.12 7.82 7.82 7.82 7.82 7.82 7.82 45pc 98; 21pc 99; 21pc 97; 45pc 96; 21pc 98; 21pc 98; 21pc 99; 21pc 93; 21pc 93; 21pc 93; 21pc 93; 21pc 93; 21pc 93; 255 326 3.81 3.64 3.65 3.65 3.66 3.71 3.71 3.71 2.08 2.91 2.14 2.20 3.22 3.43 3.43 3.45 1.55 1.55 994 993 1074 1084 1075 1075 1075 7.24 116 8.97 864 7.23 107.5 7.25 10435 7.19 108.4 7.23 1157 7.25 145.2 7.16 109.4 - 12 118 - 13 87<u>18</u> - 13 1094 - 4 1096 - 4 1174 - 4 1484 - 4 1174 12 1232 +1 1325 +1 1395 +3 45 +1 38 +1 38 +1 63 +1 63 +1 63 +1 474 +2 1478 8.46 8.66 9.75 7.78 7.69 9.02 3.61 7.47 7.25 5.30 7.50 7.25 7.38 

**UK Indices** FTSE Actuaries Govt. Securities — Low coupon yield — • Medium coupon yield — + High coupon yield — Jun 18 Jun 17 Yr. ago Jun 18 Jun 17 Yr. ago Jun 18 Jun 17 Yr. ago Price Indices UK GRts -0.21 -0.44 -0.56 -0.65 6.96 7.10 7.48 8.30 7.01 7.15 7.52 8.31 8.39 Up to 5 years (20) 119,81 5.38 5 yrs 5-15 years (20) Over 15 years (6) 5.93 15 yrs 5.02 20 yrs 7.10 kred.† 7.19 7.19 151.77 152.44 7.21 7.15 7.25 179.61 8.39 8.41 — inflation 10% — Jun 18 Jun 17 Yr. ago Jun 18 Jun 17 Yr. ago 1.30 1.85 1.80 3.03 2.86 2.86 Up to 5 yrs .197.21 196.94 -0.50

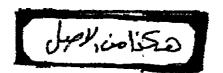
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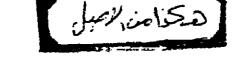
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#### CURRENCIES AND MONEY

## Dollar survives Japanese trade data

MARKETS REPORT

The dollar held firm against

The 322 per cent leap in day at Y113.41. the year-on-year surplus in awaited - failed to rock the dollar. Much of the rise had been priced in, and traders are sitting tight ahead of Seven meeting in Denver, and tomorrow's bilateral

Some currency strategists expect the US to keep calling for Japan's surplus to fall. That could boost the yen.

Japan-US summit.

But Mr Hans Gunter Redeker, senior economist at Chase in London, said the yen's 11 per cent rise last month had made the Japanese surplus less of an issue. The yen's gains would start hitting the surplus in three

to four months, he said, easing tensions between Washthe yen yesterday although indicating further easy montually unchanged late yester-

report and comments from might not. Mr Lamberto Dini, the Italian foreign minister, revived the D-Mark was 0.3 pfennigs talk of a delay to European this weekend's Group of monetary union. Emu had seemed to be on a safe path after deals struck at the European Union's Amsterdam summit on Monday.

The bank's report said rate is the highest since July Germany's budget deficit 1988. Increasingly econo-The bank's report said this year could be larger than expected, hurting Ger-

Poes	O 10 BEN 1	TOTIC .
ken 18 Spoi mith lands	-{.zbs: 1.6400 1.6388 1.6361 1.6243	Prev. close 1.6395 1.6383 1.6359 1.6253
	1-22-0	1.0230

ington and Tokyo. Strate- report also implied that the gists said that a Bank of D-Mark had fallen far Japan statement yesterday enough against the dollar since 1995, Current D-Mark Japan's trade surplus etary policy also held back levels "should to a great jumped even higher than the yen. The dollar was vir- extent reflect economic fun-

damentals", the bank said. Mr Dini said that Italy The D-Mark rose in Asian would meet the Emu crite-May - a figure keenly trading after a Bundesbank ria, but added that France In late trading yesterday

> firmer against the dollar at DM1.731. But it was little changed against sterling, which profited from a jump in UK retail sales figures for May. The quarterly growth mists think that the Bank of England's monetary policy committee will raise interest rates again this summer, for the third time since May. UK base rates are at 6.5 per cent. On its trade weighted

currencies, the pound closed

Against the yen (4 per \$)

at 100.0 - a key resistance level, said strategists.

Washington on April 27, produced a statement calling for the dollar's rise to cease. To the markets' surprise, the dollar then sank - due more to an expected rise in Japanese interest rates than to policymakers' wishes. No such spectacular cur-

follow this week's meeting. Mr Tim Fox, treasury economist at Standard Chartered in London, said any Denver statements on exchange applaud the recent slide in the dollar, rather than call for further change, Japan's mountainous trade surplus ment had tried to stop the remains an issue. But Mr surge by backing a widening Robert Rubin, US treasury secretary, has often implied that Japan should reduce the been testing the top of its 7 surplus by stimulating per cent band, will now be domestic demand, rather allowed to trade up to 21 per

Chernobyl nuclear plant. 

The Denver summit is likely

to focus chiefly on issues far

from the currency markets,

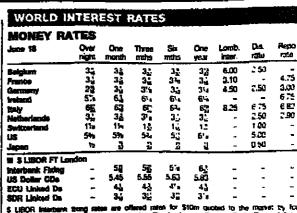
such as the closure of the

rency move is expected to The Israeli shekel remains lively.

Israel cut its key lending rate by 1.2 percentage points to 12.7 per cent yesterday, in a new bid to stop the currates would probably rency rising too fast. The shekel has been fuelled by

high interest rates. On Tuesday the governof the currency's trading band. The shekel, which had than by weakening the yen. cent above its mid-level. The permitted range below the

> will now no longer have to intervene so often to weaken the shekel. But the move finance minister, to resign He believes the changes will ther. The currency's repre sentative rate against the dollar was fixed slightly weaker yesterday at 3.4200.



Jun 18	Short	7 days notice	One	Three	Six months	) tê.Jir Cîne
Belgian Franc Danish Krone German Mark Dutch Gulder French Franc Portuguiese Esc. Spanish Peseta Sterling Swiss Franc Canadian Dollar US Dollar Italian Lira Japanese Yen Asian Sing	34 - 34 31 - 32 33 - 31 35 - 33 3 - 21 35 - 34 54 - 54 64 - 4 3 - 27 55 - 56 14 - 4 3 - 27 55 - 66 15 - 25 55 - 32 55 - 32	311 - 32 313 - 313 32 - 213 32 - 213 32 - 213 513 - 513 514 - 513 514 - 513 515 - 513 517 - 513 518 - 513 519 - 513 519 - 513 519 - 513	34 32 34 34 34 34 34 34 34 34 34 34 34 34 34	311 - 353 354 - 315 354 - 252 334 - 354 554 - 554 554 - 554 555 - 554	311 - 34 311 - 313 324 - 325 324 - 325 524 - 5 611 - 613 527 - 643 529 - 54 64 - 65 64 - 65 64 - 65 64 - 65	313 - 313 - 314 - 315 - 315 - 315 - 316 -

Sep	96.54	96.55	-0.01	96 56	96 52	21,405	71,247				
Dec	98.52	96.54	-0.01	96.55	96.50	8,510	34.612				
Mor	96.54	96.48	-0.01	96.47	96 42	3,089	30,513				
E THRE	E MONTH	EUROMA	RK FUT	Maria (Li	FFEY DATE	m points of	100%				
	Open	Sett price	Chance	High	LOW	Est vol	Open int				
Sep	98.82	96.82		96.83	96 82	15,54	275848				
Dec	96.72	96.71	-	96 72	96 70	12259	266101				
Mar	96.61	96.61	-	96.62	96 60	14133	234617				
Jun	98.43	96.44	+0.01	96 45	98.42	12146	155146				
IN CHE SOCIETY EUROMARK FUTURES (LIFFE)* DAGIN points of 100%											
	Open	Sett price	Change	High	Low	Est vot	Open at				
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Aug	96.88	96.88		96.88	96.88	50	130				
Sep	-	95.88				ã	3				
l oct		96.83				ŏ	50				
	E MONTH	EUROLIR	A PUTUR	LES (LIFF	E)* L1000r	n points of	100°6				
	Open	Sett price	Change	High	Low	Est vol	Open at				
Sec	93.36	93.43	+0.05	93 49	93.33	25217	115225				
Dec	93.69	93.77	+0.06	R3.82	90 68	11118	68129				
Mar	93.92	94.00	+0.07	B4.D4	93 71	7202	42168				
.Am	94.08	94.15	+0.09	94.18	94 02	3781	29903				
THREE MONTH SURO SINSS FRANC FUTURES (LIFFE) SFrim points of 100%											
	Open	Sett price	Change	High	Low	Fst vol	Open at				
Seo	98.45	98.45		98.48	98.41	8550	71794				
Dec	98.26	98.31	+0.01	98.32	98.25	4483	41959				
Mar	98.18	98.20	+0.02	98.21	98.14	1632	15575				
.km	97.99	98.02	+0.02	98.00	97.96	206	3750				
# THREE		EUROYE			<del></del> -						
_	Open	Satt price		High	Low		Open int.				
Sep	99.31	99.32	+0.01	99.31	99.31	200	ma				
Dec	99.09	99.10	•	99.10	99.09	160	n.a				
Mar		98.88	-0.02			0	n a				
E THREE	MONTH	ECU PUT	JAMES (LIF	FE) Ecu	im points (	of 100%					
	Open	Sett price	Change	High	Low	Est. vol	-				
Sep	95.86	95.85	-0.01	95.86	95.83	903	8311				
Dec	95.82	95.80	-0.03	95.82	95.79	371	5555				
Mar	95.77	95.76	-0.03	95.78	95.76	178	4245				
Jun	95.70	95.70	-0.03	95.70	95.68	12	2849				
* LIFFE futu	res siso tra	ded on APT	S 1 1000								
* LIFFE fatures also traded on APT  III SURGERIA OPTIONS (LIFFE) L1000m points of 100%											
	ELA UPI			- po	0- 100.0						
Strike		CAL	LS —			PUTS -					
	Sec	CALL D De	LS N	Aer 90	Sep 0.14	PUTS Dec 0.13	Mar 0 15				

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35.6320 -0.153 070 - 570
6.5770 -0.0273 760 - 780
5.1759 -0.0068 721 - 780
5.1759 -0.0068 721 - 78
5.17270 -0.0068 266 - 274
273.359 -0.565 300 - 400
1.5038 +0.0078 085 - 110
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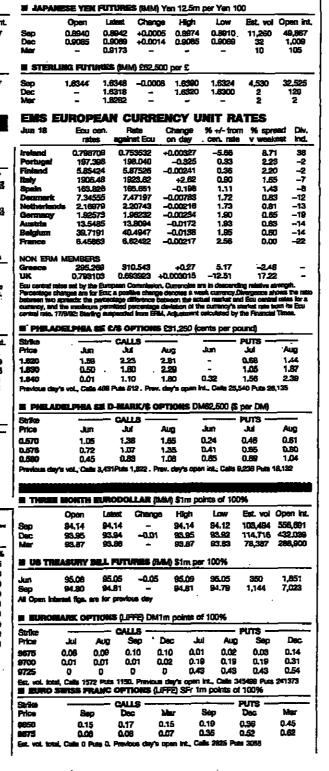
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but are implied Mid-rates in bi The exchange i	oth the and object printed	the Dellar d in the tabl	Spot tablés é aré plao a	denred in validate on	om THE WAA the internal #	reuters d	losing spot						17.	ed to the o	ge 1990	<b>-100</b> .	
EXCHAI		ROSS BFr	PAT	ES FFr	DM	E L	. 8	NKr	<b>E</b>	Pta	SKr	SFr	2	cs	s	Y	
	(BFr)	100	18.46	16.25				20.28	489.8	408.9	21.56	4.053	1.712	3.892	2,806	317.7	_
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Sermany reland taly	(DM) (E) (L)	53.80 2.106	9.930 0.389	8.796 0.344	2.607 0.102 0	1 25 039 10	55 2.934 0 0.115	10.91 0.427	10.30	B.610	11.65 0.456	2.181 0.085	0.921 0.036	2.094 0.082	1,510 0.059	170.9 6.689	
Sermany reland taly Vetherlands	(DM) (E)	53.80 2.106 18.34	9.930 0.389 3.385	8.796 0.344 2.898	2.607 0.102 0 0.889 0	1 25 .039 10 .341 870	55 2.934 0 0.115 1.8 1	10.91 0.427 3.719	10.30 89.72	8.610 74.98	11.65 0.456 3.972	2.181 0.085 0.743	0.921 0.036 0.314	2.094 0.082 0.714	1,510 0.059 0.515	170.9 6.689 58.25	
Sermany reland taly Vetherlands Vorway	(DM) (IE) (II) (PKr)	53.80 2.106 18.34 49.31	9.930 0.389 3.385 9.102	8,796 0,344 2,998 8,062	2.607 0.102 0 0.889 0 2.390 0	1 25 .039 10 .341 870 .917 234	55 2.834 0 0.115 1.8 1 12 2.689	10.91 0.427 3.719 10	10.30 89.72 241.3	8.610 74.98 201.6	11.65 0.456 3.972 10.68	2.181 0.085 0.743 1.999	0.821 0.036 0.314 0.844	2.094 0.082 0.714 1.919	1,510 0,059 0,515 1,384	170,9 6,689 58,25 156,6	
Sermany reland taly Vetherlands Vorway Portugal	(DM) (E) (H) (NKY)	53.80 2.106 18.34 49.31 20.44	9.930 0.389 3.385 9.102 3.773	8.796 0.344 2.998 8.062 3.342	2.607 0.102 0 0.889 0 2.390 0 0.991 0	1 25 .039 10 .341 870 .917 234 .380 970	55 2.934 0 0.115 1.8 1 42 2.689 1.6 1.115	10.91 0.427 3.719 10 4.145	10,30 89,72 241,3 100	8.610 74.98 201.6 83.57	11.65 0.456 3.972 10.68 4.427	2.181 0.085 0.743 1.999 0.828	0.921 0.036 0.314 0.844 0.350	2.094 0.082 0.714 1.919 0.795	1,510 0,059 0,515 1,384 0,574	170.9 6.689 58.25 156.6 64.92	
Sermany reland taly Vetherlands Vorway Portugal Spain	(DA) (L) (H) (NK) (Es) (Pts)	53.80 2.106 18.34 49.31 20.44 24.46	9.930 0.389 3.385 9.102 3.773 4.514	8,796 0,344 2,996 8,062 3,342 3,999	2.607 0.102 0 0.889 0 2.390 0 0.991 0 1.185 0	1 25 .039 10 .341 870 .917 234	55 2.934 0 0.115 1.8 1 12 2.689 1.6 1.115 51 1.334	10.91 0.427 3.719 10	10.30 89.72 241.3	8.610 74.98 201.6	11.65 0.456 3.972 10.68	2.181 0.085 0.743 1.999	0.921 0.036 0.314 0.844 0.350 0.419	2.094 0.082 0.714 1.919 0.795 0.962	1,510 0,059 0,515 1,384	170.9 6.689 58.25 156.6 64.92 77.69	
Sermany reland taly Vetherlands Vorway Portugal Spain Swaden	(DM) (E) (H) (NKY)	53.80 2.106 18.34 49.31 20.44	9.930 0.389 3.385 9.102 3.773	8.796 0.344 2.998 8.062 3.342	2.607 0.102 0 0.889 0 2.390 0 0.991 0 1.185 0 2.238 0	1 25 039 10 341 870 917 23 380 970 455 116	55 2,834 0 0,115 1.8 1 42 2,689 1.6 1,115 51 1,334 32 2,518	10.91 0.427 3.719 10 4.145 4.960	10,30 89,72 241,3 100 119,7	8.610 74.98 201.6 83.57 100	11.65 0.456 9.972 10.68 4.427 5.298	2.181 0.085 0.743 1.999 0.828 0.991	0.921 0.036 0.314 0.844 0.350	2.094 0.082 0.714 1.919 0.795	1,510 0,059 0,515 1,384 0,574 0,686	170.9 6.689 58.25 156.6 64.92	
Germany reland taly Vetherlands Vorway Portugal Spain Swaden Swaden	(DA) (E) (E) (E) (E) (E) (E) (E) (E) (E)	53.80 2.106 18.34 49.31 20.44 24.46 48.17	9.930 0.389 3.385 9.102 3.773 4.514 8.521	8,796 0,344 2,998 8,062 3,342 3,999 7,548	2.607 0.102 0.889 0 2.390 0.991 0.185 0 2.238 0 1.196	1 253 .039 10 .341 870 .917 234 .380 970 .455 110 .858 211 .459 117 .086 277	55 2,834 0 0,115 1.8 1 42 2,689 1.6 1,115 51 1,334 92 2,518 72 1,345 75 3,186	10.91 0.427 3.719 10 4.145 4.960 9.362 5.003 11.85	10.20 89.72 241.3 100 119.7 225.9 120.7 285.9	8.610 74.98 201.6 83.57 100 188.6 100.9 238.9	11.65 0.456 9.972 10.68 4.427 5.298 10 5.344 12.66	2.181 0.085 0.743 1.999 0.828 0.991 1.871 1 2.369	0.921 0.036 0.314 0.844 0.350 0.419 0.790 0.422 1	2.094 0.082 0.714 1.919 0.795 0.962 1.797 0.960 2.274	1,510 0,059 0,515 1,384 0,574 0,886 1,296 0,692 1,840	170.9 6.689 58.25 156.6 64.92 77.69 146.7 78.37	
Sermany reland taly letherlands lorway Portugal Spain Swaden Switzerland IK Canada	() () () () () () () () () () () () () (	53.80 2.106 18.34 49.31 20.44 24.46 48.17 24.67 58.43 25.70	9.930 0.389 3.285 9.102 3.773 4.514 8.521 4.554 10.78 4,743	8,796 0,344 2,998 8,062 3,342 3,999 7,548 4,034 9,553 4,201	2.607 0.102 0.889 0.889 0.991 0.185 0.2238 0.1196 0.2832 1.1245	1 25,039 10,341 870,917 23,380 970,455 116,858 211,459 117,086 277,478 122	55 2.834 0 0.115 1.8 1 12 2.689 1.6 1.715 51 1.334 92 2.518 72 1.345 75 3.186 20 1.401	10.91 0.427 3.719 10 4.145 4.960 9.362 5.003 11.85 5.211	10.20 89.72 241.3 100 119.7 225.9 120.7 285.9 125.7	8.610 74.98 201.6 83.57 100 188.8 100.9 238.9 105.1	11.65 0.456 3.972 10.68 4.427 5.298 10 5.344 12.66 5.566	2.181 0.085 0.743 1.999 0.828 0.991 1.871 1 2.389 1.042	0.921 0.036 0.314 0.844 0.350 0.419 0.790 0.422 1	2.094 0.082 0.714 1.919 0.795 0.962 1.797 0.960 2.274	1,510 0,058 0,515 1,384 0,574 0,686 1,296 0,692 1,840 0,721	170.9 6.689 58.25 156.6 64.92 77.69 146.7 78.37 185.6 61.63	
Sermany reland taly Norway Portugat Spain Switzerland JK Zanada JSA	() () () () () () () () () () () () () (	53.80 2.106 18.34 49.31 20.44 24.46 48.17 24.67 58.43 25.70 35.63	9.930 0.389 3.385 9.102 3.773 4.514 8.521 4.554 10.78 4.743 6.577	8,796 0,344 2,998 8,062 3,342 3,999 7,548 4,034 9,553 4,201 5,826	2.607 0.102 0.889 0.991 0.991 0.1185 0.2238 0.1.196 0.196 0.	1 253 039 10 341 870 917 23 380 970 455 116 458 219 459 117 478 122 862 166	55 2.834 0 0.115 1.8 1 1.2 2.889 1.6 1.115 31 1.334 32 2.518 72 1.345 75 3.186 20 1.401 1.943	10.91 0.427 3.719 10 4.145 4.960 9.362 5.003 11.85 5.211 7.228	10.20 89.72 241.3 100 119.7 225.9 120.7 285.9 125.7 174.3	8.610 74.98 201.6 83.57 100 188.8 100.9 238.9 105.1 145.7	11.65 0.456 3.972 10.68 4.427 5.298 10 5.344 12.66 5.566 7.718	2.181 0.085 0.743 1.999 0.828 0.991 1.871 1 2.389 1.042 1.444	0.921 0.036 0.314 0.844 0.350 0.419 0.790 0.422 1 0.440 0.610	2.094 0.062 0.714 1.919 0.795 0.962 1.797 0.960 2.274 1	1,510 0,059 0,515 1,384 0,574 0,686 1,296 0,692 1,840 0,721	170.9 6.689 58.25 156.6 64.92 77.69 146.7 78.37 185.6 61.63	
Germany reland taly Vetherlands Vorway Portugal Spain Swaden Swizzerland JK Zanada JSA	() () () () () () () () () () () () () (	53.80 2.106 18.34 49.31 20.44 24.46 48.17 24.67 58.43 25.70 35.63 31.48	9,930 0,389 3,385 9,102 3,773 4,514 8,521 4,554 10,78 4,743 8,577 5,811	8,796 0,344 2,998 8,062 3,342 3,999 7,548 4,034 9,553 4,201 5,826 5,147	2.607 0.102 0.889 0.991 0.1185 0.991 0.1185 0.1196 0.1	1 258 039 10 341 870 917 23 380 970 455 110 858 211 459 111 469 12 478 12 862 180 585 148	55 2,834 0 0.115 1.8 1 12 2,889 1.6 1.115 51 1,334 92 2,518 72 1,345 3,186 60 1,401 12 1,943 95 1,717	10.91 0.427 3.719 10 4.145 4.960 9.362 5.003 11.85 5.211 7.228 6.384	10.20 89,72 241.3 100 119.7 225.9 120.7 285.9 125.7 174.3 154.0	8.610 74.98 201.6 83.57 100 189.8 100.9 238.9 105.1 145.7 128.7	11.65 0.456 3.972 10.66 4.427 5.298 10 5.344 12.66 5.566 7.718 6.819	2.181 0.085 0.743 1.999 0.828 0.991 1.871 1 2.389 1.042 1.444 1.276	0.821 0.036 0.314 0.844 0.350 0.419 0.790 0.422 1 0.440 0.610 0.539	2.094 0.082 0.714 1.919 0.795 0.962 1.797 0.960 2.274 1 1.387 1.225	1,510 0.059 0.515 1,384 0.574 0.686 1,296 0.692 1,840 0,721 1 0,883	170,9 6,689 58,25 156,6 64,92 77,69 146,7 78,37 185,6 61,83 113,2 100	
Germany reland taly Netherlands Norway Portugal Spain Swaden Swizzerland JK Zeneda JSA Japan	() () () () () () () () () () () () () (	53.80 2.106 18.34 49.31 20.44 24.46 48.17 24.67 58.43 25.70 35.63	9.930 0.389 3.385 9.102 3.773 4.514 8.521 4.554 10.78 4.743 6.577	8,796 0,344 2,998 8,062 3,342 3,999 7,548 4,034 9,553 4,201 5,826	2.607 0.102 0.889 0.991 0.1185 0.991 0.1185 0.1196 0.1	1 253 039 10 341 870 917 23 380 970 455 116 458 219 459 117 478 122 862 166	55 2,834 0 0.115 1.8 1 12 2,889 1.6 1.115 51 1,334 92 2,518 72 1,345 3,186 60 1,401 12 1,943 95 1,717	10.91 0.427 3.719 10 4.145 4.960 9.362 5.003 11.85 5.211 7.228	10.20 89.72 241.3 100 119.7 225.9 120.7 285.9 125.7 174.3	8.610 74.98 201.6 83.57 100 188.8 100.9 238.9 105.1 145.7	11.65 0.456 3.972 10.68 4.427 5.298 10 5.344 12.66 5.566 7.718	2.181 0.085 0.743 1.999 0.828 0.991 1.871 1 2.389 1.042 1.444	0.921 0.036 0.314 0.844 0.350 0.419 0.790 0.422 1 0.440 0.610	2.094 0.062 0.714 1.919 0.795 0.962 1.797 0.960 2.274 1	1,510 0,059 0,515 1,384 0,574 0,686 1,296 0,692 1,840 0,721	170.9 6.689 58.25 156.6 64.92 77.69 146.7 78.37 185.6 61.63	
France Germany Ireland Italy Netherlands Norway Portugat Spain Sweden Sweden Sweden Sweden JSA Japan Scu Jones Kross It D-MARK	(DA) (DA) (DA) (DA) (DA) (DA) (DA) (DA)	53.80 2.106 18.34 49.31 20.446 48.17 24.67 58.43 25.70 35.63 31.48 40.33	9,930 0,389 3,385 9,102 3,772 4,514 4,554 10,78 4,743 6,577 5,811 7,444 an Koner, an	8,796 0,344 2,898 8,062 3,342 7,548 4,034 9,553 4,201 5,828 5,147 6,584 and Swedi	2.607 0.102 0.389 0.990 0.991 0.1185 0.2239 0.1196 0.1245 0.1.727	1 253 .039 10 .341 870 .917 23 .380 970 .455 116 .459 117 .086 277 .478 122 .662 166 .585 146 .750 191	555 2.834 0 0.115 1.8 1 12 2.889 1.6 1.115 51 1.334 92 2.518 72 1.345 75 3.186 1.401 92 1.943 95 1.777 95 2.199	10.91 0.427 3.719 10 4.145 4.960 9.362 5.003 11.85 5.211 7.226 6.384 8.179	10.30 89.72 241.3 100 119.7 225.9 120.7 285.9 125.7 174.3 154.0 197.3	8.610 74.98 201.6 89.57 100 188.8 100.9 238.9 105.1 145.7 128.7 164.9	11.65 0.456 3.972 10.68 4.427 5.298 10 5.344 12.66 5.566 7.718 8.819 8.736	2.181 0.085 0.743 1.999 0.828 0.991 1.871 1 2.389 1.042 1.444 1.276	0.921 0.036 0.314 0.844 0.350 0.419 0.790 0.422 1 0.440 0.539 0.539	2.094 0.082 0.714 1.919 0.795 0.962 1.797 0.960 2.274 1 1.387 1.225 1.569	1,510 0.059 0.515 1.384 0.574 0.686 1.296 0.692 1.840 0.721 1 0.883 1.132	170,9 6,689 58,25 156,6 64,92 77,69 146,7 78,37 185,6 61,83 113,2 100	_
Germany reland tady Netherlands Norway Portugal Spein Sweden Switzertand JK Camada JSA Japan Scu Jenten Kroner	(DA) (DA) (DA) (DA) (DA) (DA) (DA) (DA)	53.80 2.106 18.34 49.31 20.446 48.17 24.67 58.43 25.70 35.63 31.48 40.33	9,930 0,389 3,385 9,102 3,772 4,514 4,554 10,78 4,743 6,577 5,811 7,444 an Koner, an	8.796 0.344 2.896 8.062 3.342 3.999 7.548 4.034 9.553 4.201 6.594 and Swadi	2.607 0.102 0.889 0.899 0.991 0.1185 0.2238 0.1.196 0.282 1.1245 0.1.727 0.1.526 0.1.955 0.4.60000000000000000000000000000000000	1 25,039 10,341 870,917 23,41 877,917 23,41 877,917 23,455 116,858 211,478 122,662 164,585 144,750 19 10, Beigian	555 2.834 0 0.115 1.8 1 12 2.889 1.6 1.115 51 1.334 92 2.518 72 1.345 75 3.186 1.401 92 1.943 95 1.777 95 2.199	10.91 0.427 3.719 10 4.145 4.960 9.362 5.003 11.85 5.211 7.228 8.384 8.179	10.30 89.72 241.3 100 119.7 225.9 120.7 285.9 125.7 174.3 154.0 197.3 and Penet	8.610 74.98 201.6 89.57 100 188.8 100.9 238.9 105.1 145.7 128.7 164.9	11.65 0.456 3.972 10.68 4.427 5.298 10 5.344 12.66 5.566 7.718 8.819 8.736	2.181 0.085 0.743 1.999 0.828 0.991 1.871 1 2.389 1.042 1.444 1.276	0.921 0.036 0.314 0.844 0.350 0.419 0.790 0.422 1 0.440 0.610 0.538 0.690	2.094 0.082 0.714 1.919 0.795 0.960 2.274 1 1.387 1.225 1.569	1,510 0.059 0.515 1.384 0.574 0.686 1.296 0.692 1.840 0.721 1 0.883 1.132	170,9 6,689 58,25 156,6 64,92 77,69 146,7 78,37 185,6 61,83 113,2 100	

Mar	-	0.5906	+0.0022	0.5908	-	2	123
SWASS	FRANC I	FUTURES	(IMM) SFr	125,000 p	xer ŞFr		
Sep	0.6994	0.7004	+0.0013	0.7018	0.6992	10,587	31,437
Dec	0.7076	0.7078	+0.00009	0.7135	0.7072	13	777
Mer	-	0.7145	-	-	-	5	23
UK II	ITERE	ST RA	TES				
LOND	OM MC	NEY R	ATES		-		
Jun 18		Over-	7 days	One	Three	Six	One
		night	notice	month	months	months	year
nterbenk 9	tering	8 - 6	8 <sup>1</sup> 2 - 6 <sup>2</sup> 6	6월 - 6월	634 - B/G	6% - 6%	7 <sup>1</sup> 8 - 7
Sterling CE		•	-			634 - 673	631 - 683
Treasury B	iiis		-		解 - 瞬		-
Bank Bills				6년 - 6년	612 - 615	明 - 66	-, -,,,
		6 <sup>3</sup> g - 6 <sup>1</sup> 4		pit - 675	015 - 633	어로 - 6월	132 - 055
JISCOUNT M	sanket deps	64 - 64	0-8 - 0-4	•	•	•	•
JK clearing	bank bas	e landing n	ata 6 <sup>1</sup> 2 per	cent from	Jen 6, 19	97	
							9-12
			Up to 1	1-3	3-6	6 <del>-9</del>	
			Month	1-3 month	3-6 months	months	months
Cents of Tiss	rate of riser	\$100,000 is	2 <sup>1</sup> 2 2 <sup>1</sup> 2pc. Dept	month  51/2  celes withdra  5 FCGD for	months 5 min for cert ed use Sta	months  5 11spc. Expert Fine	months 44,
Cents of Tiss fore, tender up day May Reference ra House Bese	dep. under rate of disco 30, 1997. A ste for perfec flate 7pc fo	\$100,000 is sunt on Jun greed rate to d May 1, 196 om Jun 1, 19	month 21 <sub>2</sub> 21 <sub>2</sub> pc. Depi 13, 5.3110pc r period Jul 17 to May 30	5 <sup>1</sup> 2 cels withdra c. ECGO for 1 26, 1997 1 1, 1997, Sch	months 5 min for cest rd rate Stig. 0 Jul 25, 19 minus IV & 1	months 5 114pc. Export Fire 77. Scheme 6.530pc. F	months 44 nos. Make BI 7.78pc.
Cents of Tiss fore, tender up day May Reference ra House Bese	dep. under rate of dispo 30, 1997. A se for perior Rate 7pc fo	2:100,000 is zunt on Jun orned rate to d May 1, 196 om Jun 1, 19	month  2 <sup>1</sup> 2 2 <sup>1</sup> 2pc. Depite period dis 17 to May 31 197	month  5 <sup>1</sup> 2  cells with sin a 26, 1997 i 3, 1997, Sci	months 5 sen for cell ed rate Sig. 0 Jul 25, 19 women IV & 1	months 5 11-pc. Export Fire Colorer 6.530pc. F	months 434 mon. Make 11 7.78pc.
Cents of Tiss fore, tender up day May Reference ra- touse Bess THREE	dep. under rate of discr 30, 1997. A se for period Rate 7pc for Dean	2:100,000 is zunt on Jun oreed rate to i May 1, 196 om Jun 1, 11 STERLING Sett price	month 2 <sup>1</sup> 2 2 <sup>1</sup> 2pc. Dept 13, 5.3110pc r period da 17 to May 31 107 0 FUTURE Change	month  512 cells withdn c. ECGD flor 126, 1997 t 1, 1997, Sch  ES (LIFFE)  High	months 5 sen for cert ed rate Stig. 0 Jul 25, 19 semes IV & 1 0 ES00,000	months 5 11-pc. Export Fire Colorer 6.530pc. F	months 434 mon. Make 11 7.78pc.
Corts of Tas lare, tender up day May Reference re House Base THREE	dep. under gate of dispos 30, 1997. A se for perfor Patte 7pc for Dpen 93,30	\$100,000 is zert on Jun ' greed rate to d May 1, 196 om Jun 1, 15 STERLEM Sett price 93.25	month 212 2120c. Dept 13, 5.3110p or period .lis 17 to May 30 007 01 PUTURE -0.06	month  5 <sup>1</sup> 2  cells with sin a 26, 1997 i 3, 1997, Sci	months 5 sen for cell ed rate Sig. 0 Jul 25, 19 women IV & 1	months  5 11-pc. Export Fire 67, Scheme 6,530pc. F	months 414 ance. Make BI 7.78pc. inerce 100% Open int.
Certs of Tax Post, tender up day May Reference ra House Base THREE Jun Sep	dep. under rate of disco 20, 1997. A ste for period Rate 7pc for MONTH Open 93.30 93.15	\$100,000 is zunt on Jun 1 greed rate fo d May 1, 196 om Jun 1, 19 STERLEN Sett price 93.25 93.06	month 2 <sup>1</sup> 2 2 <sup>1</sup> 2pc. Dept 13, 5.3110pc r period da 17 to May 31 107 0 FUTURE Change	month  51 <sub>2</sub> cells withdn c. ECGD flor 126, 1997 t 1, 1997, Sch  ES (LIFFE)  High 93,30	months 5 sen for cell ed rate Stig. 0 Jul 25, 19 sense IV & 1 ES00,000 Low 93,26	months  5 11-pc. Export Fire 97. Scheme 6.530pc. F points of Est. vol 12863	months 4% Inco. Make III 7.78pc. Incoce 100% Open int. 89158
Certs of Tax Asse, tender up day May Reference ra- louse Base THREE lun Sep Dec	dep. under rate of disco 30, 1997. Se for perior Pate 7pc fo Detri Open 93,30 93,15 92,99	C100,000 is gart on Jun 1 greed rate to d May 1, 196 om Jun 1, 19 ST ERE EN Sett price 93,25 93,06 92,88	month 2 <sup>1</sup> 2 2 <sup>1</sup> 29c. Depti 3, 5.3110pt or period Just of to May 30 997  0 PUTURE -0.05 -0.10 -0.11	month  512  cells withdra c. ECGD for 25, 1997 1 1, 1997, Sct  ES (LIFFE)  High 93,30 93,18	months 5 sen for cest ed rate Sag, o Jul 23, 19 women IV & 1  0 2500,000 Low 93,26 93,05	months  5 114pe. Export Fire  77, Scheme  76, SSOpe. F  points of  Est. vol.  12863  64139	months 414 Ince. Make III 7.78pc. inerce 100% Open int. 89158 132359
Corts of Times of Times tender project May May May Negrons relicuse Base THREE	dep. under rate of disco 20, 1997. A ste for period Rate 7pc for MONTH Open 93.30 93.15	\$100,000 is zunt on Jun 1 greed rate fo d May 1, 196 om Jun 1, 19 STERLEN Sett price 93.25 93.06	month 2 <sup>1</sup> 2 2 <sup>1</sup> 29c. Dept 13, 5.3110pc or period Just 7 to May 30 997 0 PUTURE -0.05 -0.10	512 cells with the c. ECGO fee 25, 1997 1 1, 1997, Sch ES (LIFFE) High 93.30 93.18	months 5 sen for cell rd rate Sag. o Jul 23, 19 sense IV & 1  ES00,000 Low 93,26 93,05 92,86	months  5 114pe. Export Fire 67, Scheme 76, Scheme 76, Scheme 16, SSOpe. F	months 414 Inco. Make III 7.78pc. Inerce 100% Open int. 89158 132359 113298
Certs of Times, tender up day Nay. tender up day Nay. Teleforence retourn Base.  THEREE	dep. under rate of dispo- 30, 1997. A de for perior flate 7pc fo Side Note 1997. Side 1997. Sid	\$100,000 is zunt en Juni (man den 160 juni (man 1, 190 juni 1, 190 juni (man 1, 190 juni (m	232 23310pt period Just 77 to May 30 3097 Change -0.05 -0.11 -0.12 -0.12	month 5½ cells withdin 1, ECGD fro 1, 25, 1997 i 1, 1997, 9ct High 98.30 93.18 98.01 92.84	months 5 seen for cert for seen for cert for seen for cert for seen for cert for	months 5 114pc. 5port Fire 67, Scheme 6,530pc. F points of Est. vol 12663 64139 55684 26776	months 414 mon. Make 18 7.78pc. merce 100% Open int. 89158 132359 113268 68158
Certs of Tan Note tender up day May Reference ra- tours Base un THREE Lun Sep Dec Mar Lun Nac traded	dep. under rate of dispo- 30, 1997. A ste for perfor Patte 7pc in ENOMETH Open 93.30 93.15 92.99 92.82 on APT. All	crion,000 is xunt on Jun 1 greed rate to di May 1, 196 om Jun 1, 19 STERELING Sett price 93.25 93.06 92.88 92.77	month 232 2252 2535 253 253 253 253 253 253 2	month 512 cells without 125, 1997 to 125, 19	months 5 card for card for the Safe, o Jul 25, 19 ments IV & 1 2500,000 Low 89,26 993,05 92,86 92,74 92,88 g day.	months  5  1 1-lape Export Fine 97, Scheme 76, Scheme 77, Scheme 7	months 414 mon Make 18 7.78pc. insuce 100% Open int. 89158 132359 113298 68158
Certs of Tan Note tender up day May Reference ra- tours Base un THREE Lun Sep Dec Mar Lun Nac traded	dep. under rate of dispo- 30, 1997. A ste for perfor Patte 7pc in ENOMETH Open 93.30 93.15 92.99 92.82 on APT. All	synton,000 is synt on Jun 7 gread rate for discounting the formation 1, 19 section Jun 1, 19 section J	month 212 22 22 22 23 24 25 24 25 24 25 25 25 25 25 25 25 25 25 25 25 25 25	month 512 cells without 125, 1997 to 125, 19	months 5 care for care of the Sale for care of the Sale of the Sal	months  5 11-pc. Suport Fire 67, Scheme 76, Scheme 76, SSOpc. F  points of 12663 84139 56894 28776 10094	### ##################################
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James Maxwell

Tel: (1171 710 190)

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## Big increase in demand for energy

By Gary Mead

Global energy demand grew by 3 per cent in 1996, the highest rate of growth since 1988, British Petroleum said

Publishing it's annual statistical review of world 20bn barrels, in 1996 to energy, BP said the growth in demand was more than double the average rate of growth of 1.4 per cent for the cent. The ratio of reserves to period 1986-96.

Last year was "an exceptionally strong year for sumption rose by 2.4 per energy consumption, primarily due to an upturn in the economic cycle and unusually cold weather in the northern hemisphere," said Mr Peter Davies, editor of prices, tight inventories and

few upward market price pressures" in the context of steadily increasing energy supplies continuing to outstrip demand. Total proven oil reserves

increased by 2 per cent, or 1,036.9bn barrels, with the Middle East preserving its dominant share at 65 per production fell slightly to 42.2 years. World oil concent to 69.55m barrels a day The report says in 1996 the

international oil market was

"characterised by strong

prompt prices, weak forward



continued uncertainty over The price for Brent crude averaged \$20.80 a barrel, up more than 20 per cent on 1995. However, world supply increased by almost 2.4m barrels a day, "substantially more than demand, with all areas of the world expanding production" which permitted

rebuilding of stocks. "The

tion, increased production 0.7 per cent, following a fall general [energy] picture now remarkably stable," said by 2.8 per cent to almost Mr Davies. 34.3m barrels a day. Global gas consumption

Oil production from outside the Organisation of rose 4.7 per cent (to 2,190.6bn Petroleum Exporting Countries increased by 3.8 per cent and is now annually "accelerating at 700,000 barrels per day". Opec members, who accounted for 40.5 per cent of global produc- growth in consumption, of

of 22 per cent between 1991 and 1995, and there was exceptionally strong growth of 10.7 per cent in Europe.

cubic metres), significantly But in the US, the world's above the 2.8 per cent average annual rate of growth in The former Soviet Union region returned to modest

largest market, consumption was up a modest 1.9 per cent as relatively high gas prices and lower coal prices encouraged power genera-

## Move to restore order New Zealand farmers to palladium market | face another tough year

MARKETS REPORT

By Kenneth Gooding and Gary Mead in London and Laurie Morse in Chicago

The Tokyo Commodity Exchange said yesterday it was working with the London Platinum and Palladium Market Association to restore orderly trading to the palladium market, which is in the grip of a vicious "squeeze". A Tocom official said the exchange would shortly introduce a limit on

positions for nearby futures. Traders suggested that, while this might not have any impact on the underlying problems, it showed Tocom was ready to act prevent manipulation

It was suggested that private investors had sold short

and some could not deliver on their contracts. Traders suggested negotiations involving some Japanese trading houses were going lraqi exports; but in later on in an attempt to solve the problems so the market would not be badly damaged.

Palladium closed in London last night down \$3.50 a troy ounce at \$194. Platinum fell by \$9.50 an ounce to \$410. World coffee futures prices

fee, Sugar and Cocoa Exchange in New York the September contract was 10.70 cents lower at midday ing in 50 per cent lean and 90 at 180 cents a pound, having touched 175 cents earlier.

On the International Petroleum Exchange Brent crude oil for August delivery initially gained 10 cents, on bullish news concerning trading it had slipped 23 cents to \$17.85 a barrel.

The price for three-month copper struggled to hold on to its peak of the day, of \$2,600 a tonne, and finished \$10 higher at \$2,592 on the London Metal Exchange Trading in "hamburger

futures so far hasn't sizzled on the Chicago Mercantile Exchange. The CME's new boneless beef futures contract, which opened on Monday, has seen average daily volume below 100 contracts. Traders are showing no preference for fat content: dealper cent lean boneless beef has been equally slack.

the last decade.

New Zealand farmers were yesterday told to expect another tough year, with global markets unlikely to 3 per cent. turn in their favour.

The country's Ministry of Agriculture, in its annual review, forecasts little change in returns for most commodities. It says the value of agricultural production in the year to March 1998 should rise 1.5 per cent, which is likely to be lower than inflation.

The ministry is counting on higher returns from increased volumes of dairy and beef production and small rises in wool, sheepmeat and pip-fruit prices. However production of wool, sheep-meat, kiwi-fruit and pip-fruit are expected to fall.

Even this unpromising forecast will be seen as positive after a dismal year to March in which the ministry estimates that the value of agricultural production fell

The review says the poor performance in the past year was mainly owing to lower production and falling prices for cattle and wool. These falls were only partially offset by increased tonnages of dairy products and higher sheep-meat prices.

The slowdown in farming was also reflected in a general fall in growth rate in the New Zealand economy, from 3.5 per cent to 2.7 per cent. Overall, farmers' spending on their properties rose 2 per cent in 1996-97. although the rise was restrained to some extent by

for imports such as vehicles. The continuing tough times in the rural sector are expected to lead to further falls in fertiliser sales next season. The review notes that farmers' returns were

badly hit over the past two

years by the rise in the value

of the New Zealand dollar

against leading currencies. The review says the average sheep and beef farmer should see some revenue gains this year and next year due to higher sheep-meat prices, which are "only just exceeding" the impact of low wool prices and a steady

drop in beef production. There are hopes for some next season, which should more than offset lower production and an expected the stronger New Zealand drop in sheep-meat prices.

COMMODITIES NEWS DIGEST

## BHP joins Shell in oil sands venture

BHP, the Australian resources group, is to join Shell Canada, a subsidiary of Royal Dutch Shell, in the planned development of a C\$1bn (US\$722m) oil sands project in Alberta. The project, about 70km north of Fort McMurray, envisages initial production of about 120,000-150,000 b/d of bitumen, a heavy syrup that must be refined to produce synthetic crude oil. Start-up is scheduled for 2002. It is the largest of a number oil sands projects or expansions being investigated in Alberta.

Shell has already filed public disclosure documents. outlining its plans for the project. BHP has now agreed to join the scheme, initially through a contribution to the pre-feasibility study and by paying 25 per cent of its estimated C\$10m-C\$20m cost. The Australian company said the agreement with Shell provided for it to be involved in "all aspects" of the project, should development go ahead. This would include a potential joint venture stake if the project is thought to be viable.

BHP said its substantial expertise in earth-moving could be of use, given that the project envisages shifting around 350,000 tonnes of overburden and sands per day. The efficiency with which this can be done has a bearing on project costs and hence the viability of the development. The pre-feasibility study is likely to take Nikki Tait, Sydney place over the rest of 1997.

#### Greece to choose gold site

IGME, Greece's state-controlled mining research institute, will complete a study on the site of a \$150m goldextraction plant in northern Greece at the end of this month, officials said. IGME is expected to recommend a choice of sites for the plant, to be built by TVX Gold of Canada, which acquired the assets of Cassandra Mines, a bankrupt state mining operation, under Greece's privatisation programme.

Greece's industry ministry commissioned the study last October after residents of Olympiada, close to the main mining site, objected to construction of the plant near their village. They claimed it would damage prospects for tourism based on the area's coastline and archaeological remains. Ms Anna Diamantopoulou, industry under-secretary, is expected to make a decision in July.

TVX Gold has started refurbishing the lead and zinc mine near Olympiada. Gold would be extracted from ore residues, including a 200,000 tonne stockpile left over from Kerin Hope, Athens earlier mining activity.

#### CBOT plans to drop bushel

Prices for Chicago Board of Trade corn, wheat, and soyabean futures will be quoted in terms of contracts. rather than bushels, from the start of next year. The switch, which changes more than 100 years of market practice, was confirmed on Tuesday when CBOT member overwhelmingly approved the proposal.

The move was proposed last year, when CBOT decided contract-based quotations would be more appropriate for institutional traders. Currently, CBOT agricultural futures are quoted in dollars per bushel, and each contract is comprised of 5,000 bushels. Under the new system, futures will be quoted in dollars per contract. The contract size will not change. Laurie Morse, Chicago

#### **COMMODITIES PRICES**

**BASE METALS** LONDON METAL EXCHANGE M ALUMINIUM, 99.7 PURITY (\$ per tonna 3 mths

High/low	1002-00	1600/1587
AM Official	1571-2	1595-6
Kerb close		1592-3
Open Int.	255,881	
Total daily turnover	73,184	
M ALUMINIUM AL	LOY (\$ per to	nne)
Close	1445-55	1470-75
Previous	1445-50	1469-71
High/low		1477/1470
AM Official	1448-52	1473-5
Kerb close		1472-5
Open int.	5,220	
Total daily turnover	1,246	
E LEAD (\$ per ton	ne)	
Close	606.5-7.5	820-1
Previous	809-10	<b>622-23</b>
High/low	611	625/621
AM Official	611-2	623-4
Kerb close Open int.	04.044	623-4
Open en. Total daily turnover	34,214 5,505	
MICKEL (\$ per b	onne)	
Close	7110-20	7220-30
Previous	7070-80	7180-90
High/low	7-05 40	7280/7180
AM Official Kerb close	7135-40 -	7245-50
Open int,	52,727	7225-30
Total daily turnover	14.130	
TIN (5 per tonne)		
Close	6510-30	Free co
Crose Previous	5510-30 5510-20	5560-80 5560-65
High/low	301020	5580/5560
AM Official	5526-7	5575-80
Kerb close		5575-80
Open int.	14,883	
Total daily turnover	3,981	
ZINC, special hi	gh grade (\$ ;	er tonnej
Close	1345.5-6.5	1388-9
Previous	1348-47	13 <del>68-69</del>
High/low		1375/1386
AM Official Kerb close	1347-8	1369-9.5
Open int	92.217	1375-6
Total daily burnover	22.302	
R COPPER, grade		-1
Close	2702-3	2597-8
Previous	2688-71	2581-82

log £/\$ rate: 1.8425 Sport 16362 3 pates 16347 6 pates 1,6311 8 pates 1,6276 THE HIGH GRADE COPPER (COME) +0.35 120.90 120.10 155 2,880 +0.25 120.50 118.50 939 12,437 117.05 +0.15 117.20 117.20

PRECIOUS METALS = LONDON BULLION MARKET Gold(Troy oz) \$ price Clase 340.60-341.10 341.60-341.90 342.05 208.949 483.647 341.60 208.382 492.758 342.55-342.85 Previous close 341.90-342.40

Loco Ldn Mean Gold Lending Rates (Vs US\$ US cts equiv 479.75 485.50 301.15 309.80 491.35 503.25 Σ equiv. 209-211

failed to consolidate the rally sparked on Tuesday. On the London International Financial Futures Exchange the September future closed down \$45 at \$1,865 a tonne. On the Cof-

uaye Opea shinge High low Vol int

-27 341.5 338.5 39 340 -27 344.4 340.6 10,347 76,467 -27 346.8 344.8 118 7,973 -27 349.6 345.7 285 26,303 -2.8 349.0 349.0 217 8,419 -2.8 - 367 4,353 -2.8 349.0 349.0 217 8,419

E PALLADIUM NYMEX (100 Troy oz.; \$/troy oz.)

**ENERGY** 

189.45 -8.45 200.00 185.00 25 137 169.45 -8.45 177.00 189.10 402 5.917 165.95 -7.95 171.00 169.00 65 602 165.95 -7.95 - - 95

GRAINS AND OIL SEEDS Precious Metals continued ■ WHEAT LIFFE (100 tonnes: £ per tonne) ■ GOLD COMEX (100 Troy oz.; \$/troy oz.)

-5.5 365.00 358.00 -4 388.50 383.00 -3.25 360.50 357.25 348.00 -2.50 348.50 348.00 M MAIZE CET (5,000 bu min; cents/56tb bushel) 256,75 -3.25 260,00 258,75

EL SOYABEANS CRT (5,000to) sets; cents/60to besiet) 832-50 -20.50 859.00 831.00 25,789 54,130 772-25 -11.75 788.50 770.75 8,820 28,551 698.50 -8.00 708.00 888.00 1,613 10,066 668.50 -8.25 888.00 688.50 12,463 56,072 669.75 -5.75 675.00 669.50 867 8,141 674.25 -4.50 678.50 673.00 266 2,041 60,385 140,477

18.73 -0.50 19.17 18.86 32,952 41,144 18.83 -0.42 19.30 18.88 31,283 88,899 -0.36 19.40 19.05 12.891 38.381 -0.26 18.45 19.17 2.204 22.560 -0.25 19.52 18.26 994 17,123 -0.20 19.56 19.31 3,189 38.975 -0.31 18.14 17.90 7,497 25,127 -0.24 18.25 18.10 511 12.454 -0.17 18.34 18.26 712 8,377 -0.17 18.45 18.32 2,009 11,395 -0.17 18.43 18.32 1,010 6,969 -0.18 43 18.32 1,010 6,969 51.90 -0.99 52.85 51.60 4,341 29.294 52.70 -1.04 53.75 52.80 1,517 14,749 53.70 -0.94 54.30 53.85 54.70 -0.79 55.35 54.55 55.50 -0.79 56.00 53.40 733 12,978 314 11,256 1.742 16,396

158.75 -5.00 162.25 158.50 8.536 18,838 160.50 -5.00 164.25 180.25 163.25 -4.25 165.75 163.25 166.00 -4.00 168.50 166.00 820 6.533 168.00 -3.75 170.50 168.50 735 3,319 169.75 -3.50 172.00 170.00 1,350 9,108

2.180 +0.021 2.190 2.151 12,561 27,003 2188 +0.018 2195 2170 5,010 28,926 2175 +0.010 2185 2185 1,800 18,895 2185 +0.015 2190 2175 682 20,154 2.317 +0.014 2.317 2.300 212 8.235 2.455 +0.015 2.455 2.440 540 12.953

III. UNLEADED GASOLINE MMEX (42,000 US gails.) 56.85 -1,83 58.00 58.45 10,962 29,368 56.25 -1,89 57.50 58.15 5,100 28,098 55.75 -1,345 58,00 55.70 1,325 6,250 54.80 -0,93 55.00 54.30 138 2,157 64.10 -0.89 54.40 53.90 210 4,824

79.60 +0.10 78.60 78.50 127 724 85.40 -0.10 - - 178 88.40 -0.10 88.75 88.40 92 3,812 90.40 -0.10 90.50 90.60 16 1,799 92.40 -0.10 92.45 92.45 4 923 94.40 -0.10 - - 11 483 286.50 -3.75 271.25 266.25 29.319 84,349 249.25 -3.25 254.00 248.00 11.385 42,852 245.25 -3.5 248.50 245.00 28,268 120,790 252.25 -3.25 255.50 252.00 1,314 15,207

197 2,097 186 3,670 70,983 272,686

23.07 -0.17 23.37 22.95 4,038 35,185 23.24 -0.2 23.54 23.17 2.607 20.678 23.42 -0.21 23.98 23.35 480 9,505 23.42 -0.3 23.77 24.37 364 12,012 23.64 -0.35 24.05 23.56 25.18 21,115 E SOYABEAN MEAL CBT (100 tone; \$/ton) -7 280.0 271.5 8.568 33,598 -4.9 256.0 248.1 5,014 19,424 -4 235.0 231.0 1,834 12,992 -3.2 223.5 220.0 1,276 13,171

45 2,729 21,136 112,505 ■ POTATOES LIFFE (20 tonnes; £ per tonne) FREIGHT (BIFFEX) LIFFE (\$10/Index point)

- 1215 - 1205 - 1365

FUTURES DATA
All futures data supplied by CMS.

Prices from Kericko; USS a torne. Irenter pistachice 28/30 raw (in sheli) naturally opened (round); RPPC prices at 4,400 CPN/FCA firm with slow sales. Walnuts US jumbo inshell: 2,300 CPT Europe dut paid. Turtish hazsimuts standard No 1: nervous, price idea 4,700 CFR, new crop at 4,250 CFR. Turtish suttasses: 1,300 CFR MEP, firm with few goods. Irankan industrial apricoss: 1,800 CFR MEP firm. atmonds: crop 1996 27/30 SSR at 5,850 CIP Europe, crop 1997 28/35 SSR 4,000 FAS market stable in general with little activity. Coeconstr CFR 1,100 from top Philippine mile, stable after degreese. Russian pumpide seeds: long at 1,850 FOB tably good demand due to Chinese SOFTS M COCOA LIFFE (10 tonnes; £/tonne

+7 1107 1095 942 18,853 +7 1125 1112 2,671 30,060 +6 1120 1110 1,252 33,602 +7 1127 1120 1,436 41,479

Pres. day 1253.14 COPPEE LIFFE (5 tonnes; \$/tonne) 1840 2,289 10,417 1850 4,154 23,550 COFFEE 'C' CSCE (37,500fbs; cents/fbs) 190.05 -18.65 213.50 189.00 2,005 3,854 175.55 -15.15 193.50 175.00 5,233 8,991

156.55 -12.15 170.00 182.70 147.55 -10.15 159.00 151.70 144.05 -9.65 158.00 147.78 140.05 -8.85 143.70 143.70 647 245 28 WHITE SUGAR LIFFE (50 tonnes; \$/tonne) 

11.36 +0.02 11.41 11.2512.776 53.178 11.31 +0.05 11.35 11.22 9,316 82,405 11.22 +0.02 11.24 11.15 4,370 33.751 11.11 +0.02 11.02 11.08 114 7,279 11.01 +0.02 11.02 11.01 83 3,631 72-53 -0.13 72.75 72.40 4.378 17;793 74.77 -0.03 75.00 74.85 1,197 8,677 75.40 -0.14 75.64 75.25 5,739 34,109 76.55 -0.15 76.85 78.50 199 5,822 77.12 -0.08 77,30 77,10 21 1,180 77,35 +0.07 77,40 77,40 18 622 11,878 78,819 ■ ORANGE JUICE NYCE (15,000lbs; cents/fbs)

75.50 -0.10 76.50 75.40 1,574 15,741 78.60 -0.25 79.10 78.10 1,093 11,684 81.30 +0.05 81.75 80.75 162 4,776 83.80 +0.05 84.50 83.40 112 1,882 112 1,882 17 1,329 +0.30 87.00 86.50 314 **VOLUME DATA** 

Open Interest and Volume dista shown for contracts traded on COMEX, NYMEX, CST, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest INDICES Routers (Bese: 18/9/31 = 100)

Jun 17 month ago year ago 1993.2 2013.8 2044.3 Jun 17 186.39 Jun 16 185.10 Aluminium alton

MEAT AND LIVESTOCK ■ LIVE CATTLE CME (40,000lbs; cents/lbs)

65.100 -0.425 65.400 65.025 3.584 4.333 64.075 -0.625 64.650 64.05012.060 43.025 66.675 -0.375 67.300 68.900 2.902 23.578 69.750 -0.500 70.225 69.675 1,209 70.700 -0.375 71.100 70.850 340 72.900 -0.305 73.950 73.975 305

62.500 -0.150 62.850 62.400

71.100 -0.900 72.450 71.900

81,650+0,125 82,400 78,525 1,558

LONDON TRADED OPTIONS 

Jet fuel Diesei \$175-177 MATURAL GAS (Pa 9.820

Gold (per troy cz) Silver (per troy cz) Platinum (per troy cz.) Paliadium (per troy cz.) 474.00c \$409.00 \$190.00 127.0c Copper Lead (US prod.) 45.00c Tin (Kuala Lumpur) Tin (New York) 14,08r 260.5 92.45p 119.22p 95.83p Cattle (live weight) Sheep (live weight); Pigs (live weight); \$278.30 \$328.20 Lon. day sugar (wto) Barley (Eng. tead) Meize (US No3 Yellow Wheat (US Dark North Rubber (Aug) (F Rubber (KL RSS No1) Coccanut Oil (Phat§

Oxford, say (8)

**JOTTER PAD** 

**CROSSWORD** 

No.9,405 Set by ARMONIE

giving sweetener (7) Trainee prepared the course (7) 12 Bungling writer retired in 18 Vagrant let cider froth (8)

15 The way a gullible person may be brought up? (6,4) 16 Stern parent (4) 18 Expel judge from a tournament (4) before sour person (6.4)
22 Accomplished players
being threatening (8) 24 Small, delicate, charming,

and to some extent selfindulgent (5) 26 A good daughter tucked into cake – a suitable gift for a child (3,4) 27 It's fashionable having a function in US city (7) 28 Delight shown about confident Barbarlan in game

2 Dubious relative gets support from a king (7) See other arrangement made for stretcher in

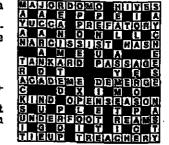
5 American property makes soldier and porter panic 6 They say the girl's a benev-

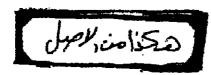
olent spirit (5)

7 Make a mistake breaking part of fork in the dish (7) Blushes after brief and conspicuous success (6.7) Flier's working under ex-PM. That's absurdly complicated (5-8)

14 Spa smelt so awful medici nal preparation's made from it (5,5) 20 Hold good person in favour 17 Diminutive royal, formerly called drunk (4-4) 19 European involved in minor trickery (7) 21 Quit the chorus (7)

23 Rent is about zero (5) 25 Damage award after losing one's head (4) Solution 9,404





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BIII join, Shell ; FINANCIAL TIMES THURSDAY JUNE 19 1997 23 FT MANAGED FUNDS SERVICE Offshore Funds ● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Deak on (+44 171) 873 4876 for more dete **OFFSHORE AND OVERSEAS** ∵ M JERSEY 21.0007 \$1.0004 \$1.0004 \$1.0004 \$1.0007 \$1.0007 \$1.0007 \$1.0007 \$1.0007 \$1.0007 \$1.0007 \$1.0007 \$1.0007 \$1.0007 \$1.0007 \$1.0007 45 146 45 17 45 17 45 17 STET Asset No. American Services (1994)

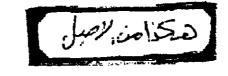
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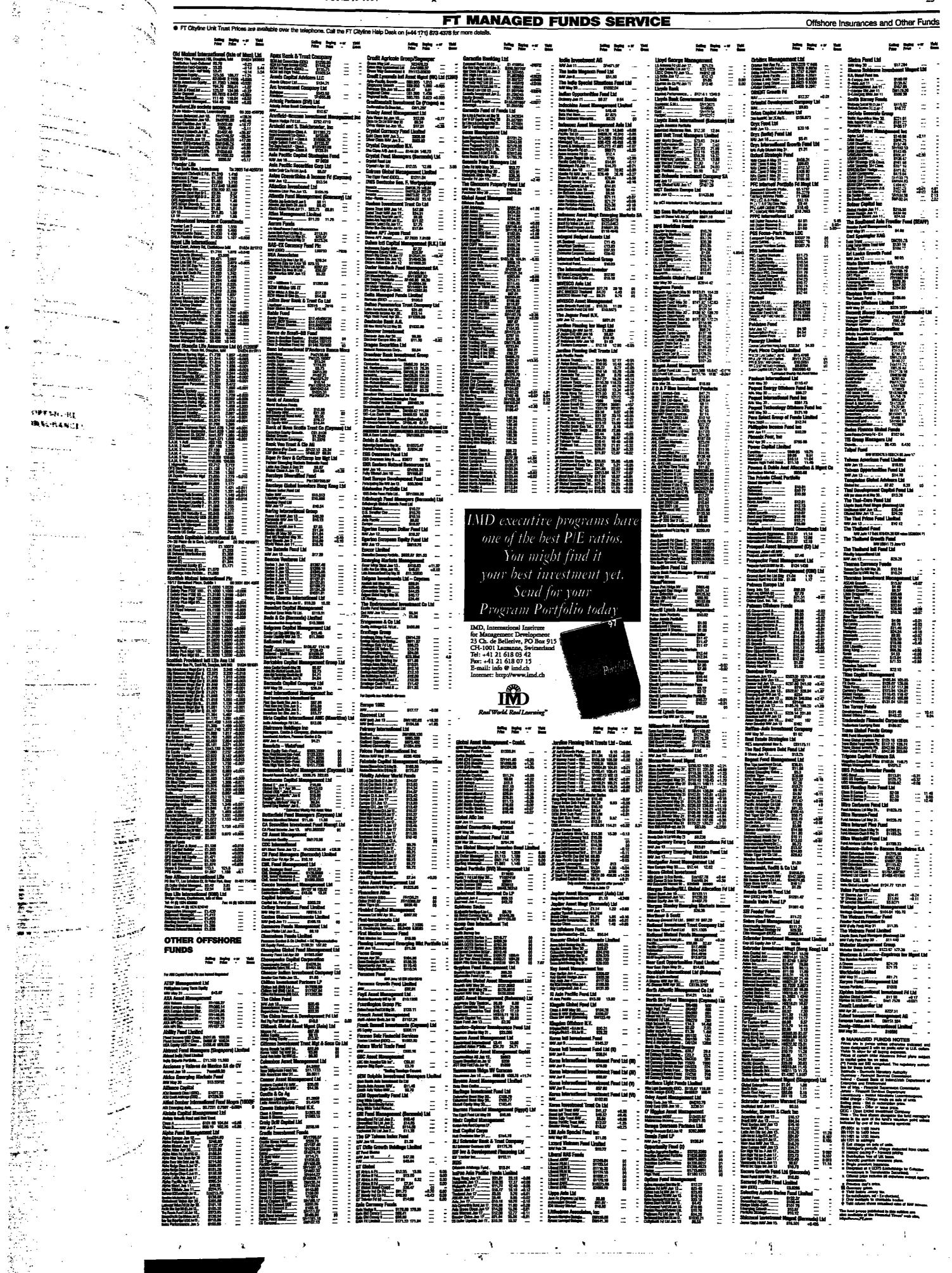
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on Tuesday, September 9

For further information, please contact:

Richard Foster

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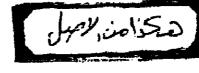
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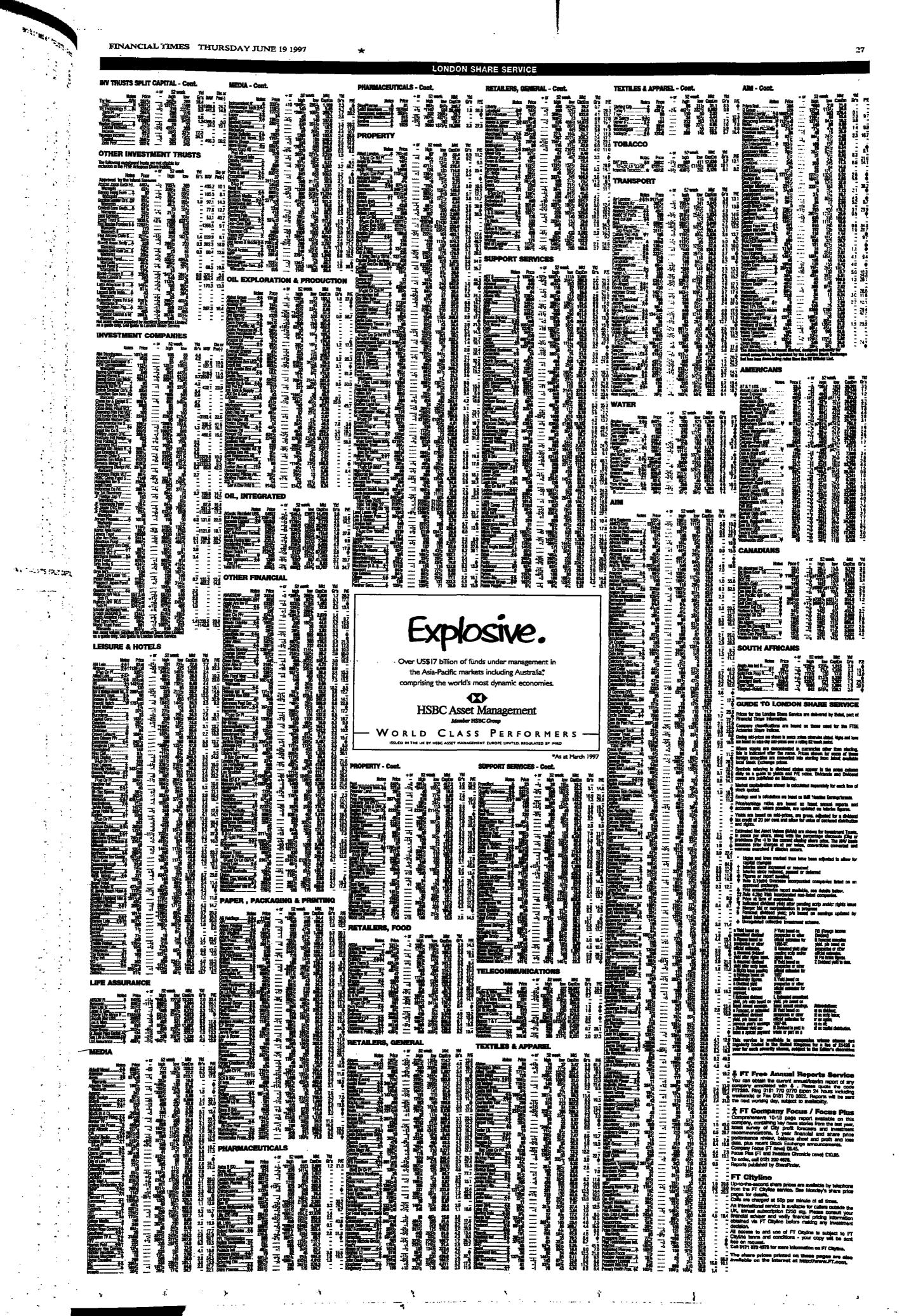
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#### **LONDON STOCK EXCHANGE**

## Retail sales news hits already weak equities

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Already seriously weakened by the prospect of some hard hitting proposals in the July 2 budget. UK equities were given an additional hammering yesterday by news that domestic retail sales during May increased by a much

That news, dealers and analysts said, substantially increased the possibility that the newlyconstituted Monetary Policy Committee will increase domestic interest rates after their next meeting, scheduled for July 10.

In the background there was a story doing the rounds that one of the big UK financial institutions had suffered losses of up to £200m from its activities in derivatives. London also had to cope with bad news from the US, where share prices on Wall Street fell heavily in the wake of profit

warnings from high-tech stocks. The Dow Jones Industrial Average, which has been bitting bigger than expected 1.1 per cent record highs over recent weeks, gave up over 50 points shortly after trading commenced in New York yesterday.

There was, however, some comfort for investors as a burst of buying towards the close of trading took the FTSE 100 index well

second liners and the smallcap friendless, however.

At the finish of a day featured by relatively low volumes again affected by low attendances around trading desks due to Royal Ascot - Footsie ended 25.2 down at 4,657.0. At its worst, Footsie fell 54.9 and looked likely to threaten the 4,600 level. That fall extended Footsie's decline over the week to 126.1, or 2.7 per

The FTSE 250, meanwhile, slipped 21.8 to 4,516.2, increasing the fall in that index to 69.9, or 1.5 per cent over three days. The smallcap fell 9,3 to to 2,370.3.

off the session low. The market's Dealers said the market had ney, said: "The threat of substancoped well enough with the sell-tial interest rate increases is stocks remained almost totally ing pressures provoked by the becoming much clearer. I conreport that the new government tinne to believe that UK interest intends to abolish the 20 per cent rates will be around 8 per cent by tax credit on dividends, but had been panicked by the retail sales report which instantly aroused

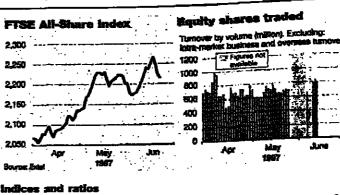
fears of a rate rise next month. "If there had been any doubts that rates were going up after the tough fiscal and monetary policy. July 2 budget, that retail sales We were less certain about the report would have dispelled supply side policies of the new them," said a senior marketmaker at one of the big UK securi- misgivings are growing as there ties houses. "We could be in for a are signs that much Old Labour rough ride up to the budget and dogma about the corporate sector beyond," he added.

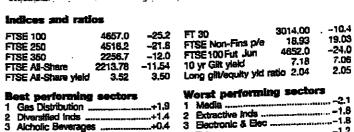
Mr Richard Jeffrey, group strategist at Charterhouse Til- was 840.8m shares.

the end of the year. NatWest Securities warned:

"Our optimistic forecasts for UK equities were based on a view that New Labour would stick to a Government. Unfortunately these

Turnover in equities at 6pm





+0.3

#### **BG** bulls buck bad news

By Peter John and Martin Brice

The Monopolies and Mergers Commission finally produced its long-awaited review on BG's pipeline fees. Ofgas, the regulator, got everything it had asked for the first time round, bar a couple of concessions at the

BG said its profits would be hit by 5 per cent in the announcement that Mr current financial year and 7 per cent in 1998-99, yet the shares shot up by 3 per cent, making them one of Footsie's best performers.

Simplistically, there was a collective sigh of relief that the dogfight was over. BG commented with a certain carelessness," quipped one amount of dignity: "The MMC Report has provided ulation that incompatibility the opportunity to end a prolonged period of regulatory instability and uncertainty.

And fundamentally, there was good news over the dividend. It will still be slashed from its previous level of

But analysts said that the reduction in free cashflow had been halved from £400m to £200m and consequently, the next dividend is more likely to be between 7.5p and 9p compared with the previous range of 5p to 7p.

NatWest, which had been at the top of the range, raised its forecast to 8p. Mr

Richard Alderman, at the buy note that argued that if prompted by poor results. investors' desks today. broker, said the consensus the bank sorts out the thorn share price target was now in its side - NatWest Mararound 230p with more optimistic estimates looking for 245p in the medium term.

ABN Amro Hoare Govett, BG's broker, also boosted its estimate and moved to undervalued" from "neutral" while SGST put the stock on "hold". The broker had been negative.

BG shares gained 61/4 to demerged Centrica business eased 11/4 to 67p with turnover also reaching 28m

BSkyB tumbled 45 to 521%p, the biggest decline among Footsie stocks. An David Chance, the deputy managing director, was leaving came hard on the heels of news that Mr Sam Chish-

olm was also standing down. "To lose one senior executive is unfortunate but to lose two could be seen as analyst. And there was specand unhappiness might have been behind the second

Also, there was a press report that the Independent Television Commission had decided BSkyB should drop its equity stake in British Digital Broadcasting. Of the other two partners in the BDB consortium, Carlton rose 9% to 519%p while Granada slid 9 to 852p. After two days of heavy

selling, National Westmin ster had a reprieve with some assistance from Credit Lyonnais Laing. The broker published a kets - the shares will be fair value at around £10. The shares bounced only 41/2 to 750p but stood out in a very dull sector.

Abbey National, which has been mooted as an ideal merger partner for NatWest. slipped 2 to 829p and HSBC, also considered to be waiting in the wings, shed 14 to 219p on turnover of 28m. The £18.311/2. There is an argument that HSBC's James Capel investment banking arm needs almost as much of a boost as NatWest, while HSBC's Midland arm could benefit in ranking and synergy from a a merger with NatWest's retail banking

> British Steel eased to 158½p in brisk volume of 14m as keen investor interest continued after its fall earlier this week, which was

from Goldman Sachs that reiterated the broker's "market outperformer" stance. The broker's note adds: Moreover, the company has a strong balance sheet,

Sentiment in the stock was

helped by a note yesterday

which should help it maintain its 6.4 per cent dividend yield." Traders have been saying that US investors saw the recent price drop as a buying opportunity: the company said it had been hit by the strength of sterling and overseas investors have been buying the stock as a bet on a weaker pound.

Shares in FKI eased off recent highs prompted by results at the top end of expectations as the shares fell 3½ to 181p.

They have seen good trade recently helped by a set of upgrades: a "buy" note from

FT 30	3014.0	3024,4	3054.3	3077,4	3062.5	2768.9	3077.4	2668.8
Ord. div. yield	3.65	3.63	3.60	3.56	3.58	4.03	4.22	3.56
P/E ratio net		18.27	18,44	18.54	18,54	16.38	18.64	15.80
P/E nationIL	18.01	18.08	18.25	18.45	18.35	16.24	18.45	15.71

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Pises and fall:	5°	52 Week highs	and lows	LIFFE Equity opt	ions
Total Rises	360	Total Highs	69	Total contracts	86,330
Total Falls	1,231	Total Lows	107	Calls	47,719
Same	1,481	! .		Puts	38,611

The broker said the shares which are trading on a price-earnings relative of about 76 to the market, deserve a relative of about 90, which suggests there could be an upside of about 25 per cent. UBS said: "The low rating reflects FKI's stance on the stock from past, not its future, and we "buy" to "outperformer".

256%p in brisk trade, helped by the latest in a series of group failed to dispel doubts announcements stemming from the Paris air show, in which the company said it had won an order for its Tay engine worth \$700m. The company said the order secures the future for the Tay engine and traders believe it will help sentiment

are buyers up to a p/e rela-

tive of 90."

in the stock. MFI saw brisk trade and eased a penny to 141p, off UBS is set to arrive on recent highs prompted by good figures from Carpe-tright, itself down 13 to 465**⅓**p.

BICC was up 3 to 1821/2p, helped by a buy note said to be from ABN Amro Hoare

Investor interest in WS Atkins kept the stock on its roller-coaster ride, and the shares rose 5 to 275%p. They have seen a lot of attention in the past week, with movements including a 17p fall and a 22p rise although volumes have not been notable. Traders put the move-

ments down to marketmakers taking positions ahead of the company's results, due out next Thursday. The company is thought to have looked at a few potential acquisitions in the facilities management area that have so far come to nothing. The shares, which floated at 215 a year ago, had a strong run up to 384p in January before running into profit-taking. Mr Graeme Summ Wise Speke expects profits of £22m, before a £4m pension

share of 16.10 for the year to March. His figures put the shares on a prospective p/e of 15 times for next year. Psion eased 11/2 to 404p following its profits warning this week, as Goldman Sachs vesterday cut its profit forecast by 30 per cent and its

Bank note printer De La Rue bounced 17 to 378%p. Rolls-Royce rose 21/2 to The shares fell sharply earlier in the month after the about prospects for growth. Lasmo was squeezed higher as some active buying caught the market short

of stock. The stock was up 8 at 269p with some talk that NatWest Securities was host-

#### **FUTURES AND OPTIONS**

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TRADING VOLUME

ocks Yesterday

Vol. Closing Day's 900s price change

Tobacco

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#### **SPOT THE REFUGEE**

There he is. Fourth row, second from the left. The one with the moustache. Obvious really.

Maybe not. The unsavoury-looking character you're looking at is more likely to be your average neighbourhood slob with a grubby vest and a weekend's stubble on his chin.

And the real refugee could just as easily be the clean-cut fellow on his left. You see, refugees are just like you and me.

Except for one thing.

Everything they once had has been left behind. Home, family, possessions, all gone. They have nothing. And nothing is all they'll ever have

unless we all extend a helping hand. We know you can't give them back the things that others have taken away.



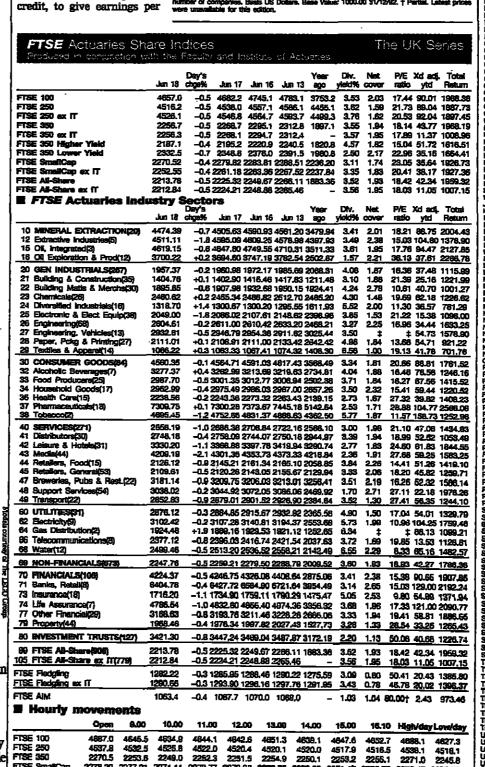
We're not even asking for money (though every cent certainly helps). But we are asking that you keep an open mind. And a smile of welcome.

refugee it can mean everything. UNHCR is a strictly humanitarian organization funded only by voluntary contributions. Currently it is responsible for more than 19 million refugees

It may not seem much. But to a

**UNRICR Public Information** P.O. Box 2500 1211 Geneva 2, Switzerland

around the world.



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† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown.
† Values are negative. Name Change: Nestor-BNA now Nestor Healthcare (FTSE International)

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Highs & Lows shown on a 52 week basis WORLD	STOCK MARKETS	
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Second   S	Reynolds   10,261,900   15%   -4   New York SE   542,946   41,277   572,956   158	
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Harry James

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FINANCIAL TIMES

FINANCIAL TIMES THURSDAY JUNE 19 1997 \* NYSE PRICES

NASDAQ NATIONAL MARKET

Total Control of the control NYSE PRICES NASDAQ NATIONAL MARKET Ti \$ 689 5<sup>2</sup>3 5<sup>2</sup>4 5<sup>2</sup>5 5<sup>2</sup>5 5<sup>2</sup>6 5<sup>2</sup>6 5<sup>2</sup>6 5<sup>2</sup>6 5<sup>2</sup>7 5<sup>2</sup> Bulderst 185 24, 27, 21, +1, Burr Brun 29 1071 295, 285, 285, 291, +1, Burr Brun 20 1071 205, 285, 385, 385, -1, Hartenyst x 084 13 54 374 374 374 +7 6<sup>1</sup>s 4 TOSY Enters 1.20 3.3 18 251 6<sup>1</sup>s 6<sup>1</sup>s 6<sup>1</sup>s 6<sup>1</sup>s 4 TOSY Enters 1.00 2.0 19 3897 u50 47<sup>2</sup>s 45<sup>2</sup>s 42<sup>1</sup>s 10 6<sup>1</sup>s 10 6<sup>1</sup>s 10 6<sup>2</sup>s 10 6 | Tokyo Nar x 12.22 23 70 61 \( \frac{1}{2} \) 60 \( \frac{1}{6} \) 1 - \( \frac{1}{2} \)
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 | Tab Prods | 0.20 | 13 | 58 | 10 | 9½ | 9½ | -½ | TabEDem x | 0.42 | 65 | x0 | 40½ | 40½ | 40½ | -½ | Tabematica | 14 | 757 | 16½ | 16 | 16½ | -½ | Tabematica | 24 | 278 | 35% | 33% | 35% | 35% | 13% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 16% | 1 Vingrei Celli Varien Vicor Vicorpiles Viewlogic VLSI Tech Exho Bay 2577 6 5% 5% -% 16 Exho Bay 2577 6 5% 5% -% 16 Exho Bay 35 56 7% 7% 7% -% 16 Exho Bay 35 84 4 94% 55% 54% -% JTS Corp Fig. basis x 0.70 20 4 31 31 31 -1<sub>0</sub> Fig. Ax 2.20 13 131 64<sup>1</sup><sub>2</sub> 64<sup>2</sup><sub>3</sub> 64<sup>2</sup><sub>3</sub> -<sup>2</sup><sub>6</sub> Forestin 1822 45<sup>2</sup><sub>3</sub> 43<sup>1</sup><sub>2</sub> 43<sup>2</sup><sub>4</sub> -<sup>3</sup><sub>6</sub> Freepency 0.60 15 135 14 13<sup>2</sup><sub>4</sub> 13<sup>3</sup><sub>4</sub> 1<sup>3</sup><sub>4</sub> 35 5 84<sup>1</sup>4 84 84 <sup>1</sup>4 | People H | 072 15 | 423 | 35½ | 35½ | 35½ | 3½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ | 35½ 27 2100 21 24 24 26 -16 28 20 124 24 24 17 883 284 284 282 -1 | Surger | 0.80 | 11 | 20 | 20 | 1972 | 20 | 14 | Minoton | 25 | 314 | 47°4 | 47 | 47°5 | 14 | Minoton | 25 | 314 | 47°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 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33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 | 33°5 177 601 32<sup>1</sup>2 31<sup>1</sup>/<sub>2</sub> 32 1<sup>2</sup>/<sub>4</sub> 178 2949 32<sup>1</sup>/<sub>2</sub> 31<sup>1</sup>/<sub>2</sub> 32<sup>1</sup>/<sub>4</sub> 1<sup>2</sup>/<sub>4</sub> 1.12 20 20 13<sup>2</sup>/<sub>4</sub> 13<sup>2</sup>/<sub>4</sub> 13<sup>2</sup>/<sub>4</sub> 1<sup>2</sup>/<sub>4</sub> VacatA VacatB WPET 25 333 a16<sup>1</sup>2 15<sup>2</sup>3 15<sup>2</sup>3 Cemerus: 0.20 15 44 38 38 38 38 GrafoGaA2 0.07 132 44 46 46 46 Comboon x 20 63 26 27 27 27 4 83 2851 2874 2874 -16 81 934 936 536 -16 19 1월 1월 1월 i Hadir x JSB Fin 1.40 17 25 848 44 46 +114 Jano Lig x 0.32 14 100 u17<sup>1</sup>2 18<sup>1</sup>4 18<sup>7</sup>5 Janata 0.16 15 277 u12<sup>7</sup>6 12<sup>1</sup>2 12<sup>7</sup>5 +14 2017763 34<sup>5</sup>2 34 34<sub>2</sub>2 8 1151 16 15<sup>3</sup>2 15<sup>7</sup>3 Without U. 0.52 2011553 (8) 18) 18) 185 WPP ADR x 0.10 23 654 435 427 431 Proces 15 112 18<sup>1</sup>4, 15<sup>1</sup>4, 18 Proces 1118 1 12 12 12 14 Pres 1 18 2 12 14 15 15 17 14 1 (Σοντάτνίζο macier 8 x 0.02 23 1433 2812 284, 287<sub>2</sub> 287<sub>2</sub> 287<sub>2</sub> 287<sub>2</sub> 277<sub>4</sub> 177<sub>2</sub> 271900 Res 280 67<sub>8</sub> 67<sub>4</sub> 67<sub>4</sub> PresCas Wyman-Gan 0.40 32 8031 26 24<sup>1</sup>2 24<sup>7</sup>3 -1<sub>1</sub>3 189 1996 93<sup>1</sup>2 58 58<sup>7</sup>2 +<sup>1</sup>2 Have your FT hand delivered in K Swise · 0.08349 301 135 137, 138 + 1 PrimPri 39 742 164, 16<sup>1</sup>2 1811 +1 975 84, 684, 8<sup>1</sup>2 -1 5380 21<sup>3</sup>4, 21 21<sub>1</sub>2 -1 10 2577 22% 21% 22% +% 16 25 144 197 137 4 -X-Y-Z-18 55 20 70<sup>1</sup>2 Prod Ops 0.28 35 20 70 2 70 2 70 2 Kell A 544 누 4월 최 152462 251<sub>4</sub>624 3 241<sub>2</sub> 1/<sub>4</sub> 7589 261<sub>2</sub> 261<sub>2</sub> 27 30864 25 2444 2574 +176 1 **EASDAQ** Gain the edge over your competitors by having the Financial Times delivered to your home or EASDAD is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. 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Dr Solomora ADS 5.3/5 US\$10.975 FFr15.5 -0.5 US\$23.25 -1.5 10.375 Financial Times. World Business Newspaper. Digi jesi Dig Micas Dig Seund Dig Syst US\$4,125 Information about EASDAC can be found on the Web see at: HTTP://WWW.EASDAC.be EASDAC offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990). 26 736 52% 51% 51% 422 9% 9 8%

## Dow slips on heavy Novartis shoots up, Zurich at peak tech sector selling

Heavy selling of technology stocks, reversing the credit card specialist bank, strength displayed during the last week, pushed all the main indices lower on Wall Street at midsession, unites John Labate in New York.

The Dow Jones Industrial Average was down 42.53 at 7,718.25 by midsession while the Standard & Poor's 500 index slipped 5.29 to 889.14.

Poor corporate results pushed large technology companies into the spotlight. Seagate Technology plunged \$5% or 12.7 per cent to \$36% after its profits warning for the second quarter after the market closed on Tuesday.

Oracle, the software company, also suffered heavy losses, shedding \$2% to overdue for May. \$50%, in spite of results that were broadly in line with expectations. Other fallers included Microsoft, off \$3%,

takeover rumours. Advanta, the Pennsylvania-based which warned on profits and trading. At the noon calcula-announced a strategic tion, the 300 composite index review earlier this year, registered strong gains on speculation that a sale was immi-

By midday its A-shares had gained \$2% to \$34%, a rise of 8.3 per cent.

American Express continued to prosper on speculation that it had renewed talks to be acquired by Citi-

By midsession, it had gained \$1% to \$78% while Citicorp had shed \$1% to \$120. Other card issuers fared well on figures showing a fall in credit card debts

Speculation on the tobacco industry's attempts to meet a settlement with states' attorneys general led to falls of more than 2 per cent in The financial services sec- the prices of Philip Morris, tor put in a lively perfor- down \$1% at \$45%, and RJR

mance helped by several Nabisco, \$% lower at \$34%. TORONTO moved lower along with Wall Street in a morning of relatively light was off 24.74 on the previous close at 6.507.60.

> Canadian Pacific ran into profit-taking after Tuesday's strong gains, slipping 35 cents to C\$39.45. Alcan Alu-C\$49.50 on negative labour pact news.

Newbridge Networks shed were dull Barrick Gold came off 60 cents to C\$32.95 and Placer Dome ended the a year.

The Novartis gains were C\$24.60.

CS Resources jumped 95 cents to C\$15.90 after a C\$16.00 takeover offer from PanCanadian Petroleum. Gulf Canada Resources, which had earlier made an offer for CS, bounced on the news of the counter bid. Its shares added 25 cents at

#### Mexico City moves lower after record

Latin American centres had a mixed morning, unsettled

by a weak Wall Street start. lower in quiet trading after hitting record highs for five midsession with the IPSA straight sessions. Telmex

Market

Brazil Chile

Colombia<sup>3</sup>

Venezuela:

South Korea

**Philippines** 

ndonesia

Sri Lenka

China\*

Latin America

IPC index was 18.21 lower at per cent to 27 pes

SANTIAGO quickly gave up initial gains to close at retreated 14 centavos to 18.56 LabChile, the drugs group,

BUENOS AIRES edged higher. Dealers cited technical factors resulting from this week's options expiries. index down 0.16 at 133.01. At midsession, the Merval index was up 0.52 at 801.48.

An upbeat presentation to analysts sent Novartis rocketing 3.8 per cent higher and propelled ZURICH back into to record-breaking territory.

group's presentation, in which it outlined details of its research programme including 11 products in the new drugs pipeline, prompted a number of analysts to reconfirm buy recommendations and to minium lost 35 cents to increase already bullish growth forecasts.

The shares jumped SFr84 to SFr2,002 as Novartis exec-60 cents to C\$59.65. Golds utives said that their aim was to introduce three commercially attractive products

> sufficient to overcome early weakness in the market and to send it higher after two days of consolidation. The SMI index rose 59.1 to an all-time high of 5,405.0, up from an early low of 5,335.0. CS Group, under pressure over the previous 10 ses-

> sions, clawed back SFr4.50 to SFr189 although old merger and spin-off rumours continued to do the rounds. Sulzer, sharply higher in

recent sessions on details of the Sulzer Medica spin-off, gave up SFt34 to SFr1,261. PARIS continued to lose ground ahead of today's pol-

Index and share price (rebased) The pharmaceutical

> government. Sentiment was also checked by the news that BZW had moved from overweight" to "neutral" on

The UK broker expects earnings to slow appreciably this year and next and sees the recent change of government as a setback for corporate restructuring. In quiet trading, the CAC 40 index ended off 10.86 at 2.751.74 in a sub-average 10.9m shares

LVMH fell FFr26.00 to FFr1,507 on the news that it had taken a small stake in Grand Metropolitan of the UK and following a move from buy to hold by French broker Dupont Denant. The luxury goods group is to GrandMet's opposed merger with Guinness.

Sony weakened Y50 to

Y9,750 and TDK Y40 to

Y8,320. High-technology

stocks, however, drew buy-

ing interest generated by the

sector on the New York

Y160 to Y8,800 after hitting a

new intra-day high for the

ing. Kyocera advanced Y210

Leading financials mostly

retreated. Among the excep-

tions was Dai-Ichi Kangyo

Bank, which gained Y30 to

ment in a widening scandal

banks were hit by reports

to Y9,010.

FTSE Actuaries Share Indices THE EUROPEAN SERIES Open 10.30 11.00 12.00 13.00 14.00 15.00 Clase FTSE Europack100 2427.79 2425.62 2425.19 2425.72 2426.88 2424.66 2426.83 2427.88 FTSE Europack200 2430.33 2426.67 2432.30 2432.61 2434.86 2430.69 2435.49 2437.50 Jun 12 . Jun 11 Jun 16 Jon 13 2406.56 2445.01 2446.48 2451.85 2454.20 2471.83 2441.70 2473.84 Print value 1000 (26/10/90); 1 C) FTSF 1 100 - 7408.61; 200 - 2437.58 Loweller 100 - 2432.19 208 - 2438.81 † Partial

panies planning to raise A US drug story got firmly behind Rhône Poulenc, lifting the shares FFr3.30 to FFr201. The group has submitted an application to the cent higher at Fl 53. FDA for a tablet form of a FRANKFURT passed drug used to curb bed-wet-

ting among small children. Pathe, which has a 17.5 per cent stake in BSkyB, tumbled FFr93.00 or 6.9 per cent to FFr1,265 as shares in the satellite TV broadcaster's shares fell steeply for the second day running.

AMSTERDAM edged back up to within a whisker of record highs thanks to another strong performance from Philips and a bounce for Nedlloyd. The AEX index gamed 1.98 to 849.13. Philips, which

strongly on Tuesday following news of its telecoms equipment the up in the US, continued to power forward. The shares rose Fl 8.90 to Fl 137.80, a two-day advance of more than 13 per cent.

shipping rates on westbound routes from the Far East left Nedlloyd F1 2.40 or 4.7 per

another subdued session with a stronger Dax futures contract putting the brake on declines from profit-taking and the early losses on Wall Street. The Ibis-indicated Dax closed 9.38 firmer at 3,730.56 in volume that picked up to DM11.2bn.

Hoechst overcame an early after a press report, citing an internal company document, said that the company would post a 7 per cent drop in operating profit and an 18 per cent decline in sales. VW picked up DM16.45 to DM1,218.45 ahead of its shareholders meeting today and Karstadt was down DM4.50 at DM648.50 ahead of

STOCKHOLM met with Reports that its joint ven- further profit-taking, ture with P&O was among sparked partly by a renewed the container transport com- outbreak of scare stories at Morgan and Jeffrey Brown

In Osaka, the OSE average

fell 60.36 to 21,336.21 and vol-

ume edged up to 15.3m

HONG KONG ended

weaker but well above the

day's low. The Hang Seng

index closed off 103.26 at

14,203.89 having trailed by

307 points at one stage dur-

rose across the board,

accounting for four out of

the five most actively traded

China Everbright surged

HK\$4.65 or 37 per cent to

HK\$17.25 following confirma-

its annual news conference.

Pharmacia & Upjohn. The general index ended off 13.74 at 2,888.02

Rumours that P&U was poised to put out a profits warning resurfaced and the shares fell sharply from the outset. Sentiment was not helped by a move from "accumulate" to "reduce" by Swedish broker, Aros. The stock ended SKr6.50 lower at SKr258.5.

MADRID was higher as company news and technical factors brought in buyers and the general index finished 5.96 higher at 577.80. Among the winners, Tele-

fónica rose Pta40 to Pta4,290 on news that it had settled its dispute with Airtel, the mobile telephone operator. Cofir rose Pta13 to Pta630 after news that it was increasing its stake in NH Hotels was well received by

MILAN was supported by strong US demand and firmer bond futures, which rose on the view that the launch of the single currency will take place as scheduled at the start of 1999 and Italy will among the first wave of members. The Comit index rose 0.59 to 797.16 while the real-time Mibtel index, 213 higher at 12.930, reflected a late wave of buying.

Written and edited by Michael

Telecom jumped 17 cents or

33 per cent to 69 cents on the

news that the Xinhua News

SEOUL closed sharply

lower as investors took prof-

its following the latest round

of sabre-rattling by North

Korea. The composite index

lost 19.08 or 2.4 per cent to

WELLINGTON closed at a

four month high, helped by

easier money market rates.

The 40 capital index added

32.18 or 1.4 per cent at

SYDNEY closed lower on

profit-taking among banks

and resource stocks. The All

2.400.21.

tion that the group is to Ordinaries index eased 8.3 to

Agency is to take a stake.

MEXICO CITY moved

pesos. At midsession, the was a clear feature, rising 2.5

#### Emerging markets: IFC weekly investable price indices

		DOMEST TRITT	<b>15</b>	, LO	CBY. COLLEUCÀ	TOUTUS	
No. of stocks	June 13 1997	% Change over week	-	June 13 1997	% Change over week	% Change on Dec '96	Tokyo
(248)	719,11	+3.7	+33.7				ing n
(30)	1,171.72	+1.4	+23.3	718,870.17	+1.5	+23.3	
(68)	586.96	+5.3	±48.1	2,358.75	+5.5	+53.1	surplus
(46)	819.35	+4.8	+32.1	1,366.55	+4.3	+29.6	Robins
(14)	839.21	+0.8	+32.6	1,606.08	+13	+42.4	The I
(64)	654.09	+2.5	+23.5	2,243.70	+2.0	+24.8	95.81 to
(17)	264.58	+0.4	+34.5	430.14	+0.4	+37.7	ing be
(9)	844 <i>.</i> 40	+3.0	+16.0	9,418.44	. +2.7	+18.1	20,620.
(709)	238.37	-1.2	-5.7			•	higher
(27)	79.07	-3.6	+7.3	82:77	-3.6	+7.2	ative to
(156)	88.51	+4.1	+14.6	103.31	-3.8	+20.3	cerns t
(42)	247.60	+2.0	-1 <b>5,7</b> :	315.54	+1.9	-15.4	_
(90)	172.63	+0.1	+12.6	180.74	+0.1	+14.2	plus, v
(77)	100.61	+4.7	+27.7	127.91	+4.8	+27.6	year ea
(49)	130.59	+0.6	+2.3	172.27	+0.5	+5.2	yen ur
(148)	292.45	-3.0	-13.1	271.31	-3.0	-13.6	The do
(28)	237.65	+2.6	+21.4	437.07	+2.6	+22.2	to Y112
·(5)	124.82	+6.4	+31.3	159.25	+6.3	+35.3	slight
(87)	130.30	-10.0	-41.1	133.55	-33	-40.7	day he
(264)	159.94	-0.4	+19.1		•	٠- ٠	further
(7)	56.63	+3.6	-19.3	61.08	+1.3	-3.8	Trainer

Just as investors in the Thai stock market were beginning to assimilate last week's move by the central bank to restrict overseas remittances of baht gained from equity sales, a host of new worries about politics and the financial sector emerged to batter the main index, writes Ted Bardacke. The SET index, which closed down 3 per cent yesterday at 482.94, has slipped below the key 500-point barrier for the first time since

1939, and is down 42 per cent on the year. The currency regulations require baht earned from selling share to remain in Thailand. So far, they have proved successful in preventing investors from selling their Thai equities to raise baht for arbitraging purposes overseas. If investors want to remit funds overseas, they can do so only in foreign currencies. Brokers say the new regulations do not amount to an imposition of foreign exchange controls but that their forplace as Thailand continues with currency speculators.

683.37 589.96

127.91

The currency move stabilised the market for a few days. Yesterday, however, the finance minister. Mr Amnuay Virayan, said that he would submit his resignation today after being snubbed by the cabinet in his attempt to contain the budget deficit this year and next. Investors are also concerned about the ability of the Thai authorities to design and implement a programme to clean up the financial system before it becomes a black hole sucking down government funds and rendering a defence of the

currency impotent. The banking sector, the traditional refuge for foreign investors, has been the target of much of the recent selling, declining 5.5 per cent yesterday. Banks will be required to disclose their levels of non-performing loans for the first time beginning in July and many investors believe these numbers

o 20,497.85 after movtween 20,428.74 and 36. Stocks opened but soon fell into negerritory on fresh conhat the May trade surwhich tripled from a arlier, would drive the against the dollar. ollar subsequently fell at one stage, but its recover later in the elped equities resist

Volume fell from 399m shares to an estimated 302m. Declines led advances 701 to 354 with 188 unchanged. The Topix index of all firstsection stocks fell 5.67 to weighted Nikkei 300 was down 1.04 at 296.09.

Renewed currency concerns hit blue-chip exporters, particularly car makers. Honda, which fell Y60 to Y3,340, also suffered from reports that it will cut output of sport-utility vehicles response to falling sales in the wake of the April 1 sales tax increase. Toyota shed Y60 to Y3,340, Daihatsu fell Y14 to Y660 and Suzuki Y10 to Y1,450.

strong day for Gencor pushed Johannesburg's allshare index higher on a mixed day for industrials and golds. Turnover hit a record R2.8bn and the allshare closed up 26.3 at 7.218.4. Industrials dipped 0.6 to 8,432.1 and golds

Gencor shot forward by R1.65 or 7 per cent to

## Japan trade surplus sends stocks down

debentures in April and

planned to cease buying dis-

count bank debentures alto-

gether in the next few years.

Long-Term Credit Bank of

Japan fell Y5 to Y418 and

Nippon Credit Bank slipped

Hokkaido Takushoku

Bank fell Y7 to Y163 after

day's news that it will co-

operate with Barclays Bank

Seven-Eleven Japan

climbed Y120 to Y8,910 and

Seivu Y20 to Y975, Jusco

gained Y90 to Y3.960 after

sliding in recent sessions fol-

in the Japanese market.

banks' interest-bearing Bank scandal.

Among leading electricals, that the finance ministry dent on charges of involve- bright Bank of China. CCT had stopped purchases of the ment in the Dai-Ichi Kangyo

gaining yesterday on Mon- ing the session. Red chips

lowing the arrest of its presi- acquire 20 per cent of Ever-

INVITATION TO BID

FOR BAHR DAR TEXTILE ENTERPRISE

**IN ETHIOPIA** 

#### declined on growing cy uncertainty followlews of the sharp se in Japan's trade s for May, writes Gwen strong performance of the

Nikkei 225 average fell exchange. Advantest gained year of Y8,820 in earlier trad-Y1,440 in spite of its involveover links with corporate racketeers. Long-term credit

#### **SOUTH AFRICA**

Heavy turnover and

	TATTATION AT
	INVITATION No. 006/1996-97
1.	The Ethiopian Privatization Agency (EPA), pursuant to the powers and duties vested in it by Article 5 (3) of Proclamation No. 87/1994, hereby invites all prospective investors to submit bids for the acquisition of a full

- and reby invites all prospective investors to submit bids for the acquisition of a full or partial stock ownership in the existing business, and an investment and/or implementation proposal towards the realization of the expansion/rehabilitation project of Bahr Dar Textile Enterprise.
- Bidders can submit their bids indicating the percentage of ownership they want to acquire.
- Bid Documents will be available in Room 504 of the Ethiopian Privatization Agency starting Monday 28 April 1997 and interested bidders can obtain them during working hours upon payment of non-refundable Birr 100 or the equivalent in U.S. dollars for each set of documents.
- Bidders shall submit bid bond in the amount of 2% of their offer along with their bids. The bid bond shall be in the form of a bank guarantee or a certified cheque or insurance bond, all payable to the Ethiopian Privatization Agency.
- Bids shall be submitted in wax-sealed envelopes on or before Friday 25 July 1997, 5.00 p.m. local time, addressed as follows:

Ethiopian Privatization Agency P.O. Box 11835 Bole Road, Woreda 18, Kebele 18 Room No. 504 Addis Ababa, Ethiopia INVITATION No. 006/1996-97 Bid for Bahr Dar Textile Enterprise

- The bids shall be opened on Monday 28 July 1997 at 10:00 a.m. local time, in the conference room of the Ethiopian Privatization Agency, in the presence of bidders or their representatives.
- 7. The Agency reserves the right to accept or reject any or all bids

ETHIOPIAN PRIVATIZATION AGENCY TEL: +251 1 150370 FAX: +251 1 513955

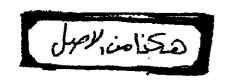
#### eign clients are reluctant to invest for fear that such controls may eventually be put in be very high, or even worse, fudged.

FT/S&P ACTUARIES WORLD INDICES

International and Standar	d & Poo	La lu cou	junction v	vith the	Faculty o	Actuarie	s and the	e Institute	of Actua	aries. Nati	Veet Se	curities L	td. was a	co-found	er of the	ndices.
NATIONAL AND REGIONAL MARKETS			TUE							MONDA						
Figures in parentheses show number of lines	US Dollar	Day's Change	Pound	Yen		Local Currency	Local	Gross	US	Pound Stering	Yen		Local			Year
of stock	index	%	kıdex	Index		Index			index		Index	Index	Currency ! Index	az weekt High		(abbuox)
Australia (76):			214.61		213.73		0.6	3.66	235.13	212.79	168.64	211.42	208.89	237.11	188.44	199.93
Austria (24)			175.49					1.91				175.65				192.03
Reinlum (26)	251 20	_19	777 45	100 12	7 22E E 1	204 T		~ ~~	OF4 F0							

of stock index	%	kıdex	Index	Index	lad-		LIV.	Locker	COMMAN	ren	LIM	Curioticy:			
<u> </u>	_~	NIO-34	KRAEA	IIRIEX	DECEK.	on day	Yield	Index	Index	Index	Index	Index	High	Low	(approx)
Australia (76):237.11	6.8	214.61	169.99	213.73	210.21	0.6	3.66	235.13	212.79	168.64	211.42	208.89	237.11	188.44	199.93
Austria (24)193.89	-0.8	175.49	139,01	174.77	174.68	-0.5	1.91	195.35			175.65				
Belgium (26)251.30	-1.3	227.45	180.17	226.51	221.77	-1.0	3.22	254.52	230.33	182.54	228.85	223.95	255.67		
Brazil (30)291,77	1.0	264.09	209.18	283.00	576.75	1.0	1.26	288.98	261.52	207.28	259.84	671.03			
Canada (112)211.19	-0.5	191,15	151.41	190.36	211.94	-0.1	1.85	212.19	192.02				212.99		
Denmark (32)387.08	-0.5	350.33	277.50	348.B8	347.67	-0.2	1,46	388.97	352.01	278.97			391.53		
Finland (28)273.14	-1.2	247.22	195,82	246.20	297.09	-1,2	1.53	276.44		198.26			279.84	186.67	
France (91)224.75	-1,4	203.42	161.13	202.58	206.20		2.75	227.82					232.34	186.94	
Germany (59)215.71	3.O~	195.24	154.55	184,43	194,43	-0.5	1.45	217.51	198.84	158.00		195.57	217.51	169.70	
Hong Kong (66)502.08	-0.4	454.42	359.94	152.54	498.93	-0.4	3.03	503.96	45B.07	361.44	453.13		528.88	407.55	
Indonesia (27)245.04	-0.2	221.79	175.68	220.87	365.06	-0.2	1,61	245.54	222 21	176.10			-	701.000	75-7501
fretand (17)	-1.1	317.63	251.59	318.32	327.93	-0.4	2.89	354.64		254,35			354.64	270.08	290.11
Italy (59)	-0.5	83.17	65.88	82.82	116.47	-0.5	2.16	92.30	83.53	66.20	82.99	117.03	98.32	73.26	
Japan (485)139.00	-0.3	125.81	99.66	125.30	99.68	-0.4	0.79	139.48	126.21		125.39		158.25	107.57	
Malaysia (107)	0.2	470.84	372.95	468,90	503,17	0.0	1.36	519.05	469.73				660.85	510.10	
Mexico (27)1525.21	0.2	1380,49	1093.49	1374.79	13253.99	0.1	1.40	1522.21				13242.05	1505.04	1110.10	301.04
Netherland (19)391.29	-0.7	354.16	280.53	352,70	348.34	-0.5	2.23	394.22	356.76	282.73	354.46	350.01	394.22	279.88	
New Zealand (14)91,20	0.0	82.55	65.39	82.21	70.18	0.0	4.10	91.23	82.56	B5.43	82.03	70.16	95.60	78.22	
Norway (41)307.77	0.3	278.56	220.65	277.41	303.29	-0.2	2.03	308.85	277.89	220.07	275.90	303.80	321.23	246.04	
Philippines (22)167.58	0.5	151.68	120.15	151.06	220.27	0.5	0.65	166.69	150.84		149.87	219.10	<b>32 1.23</b>	240.04	256.56
Singapore (42)	0.4	348.82	278.30		253.36	0.4	1.18	383.02		275.35	345.20	252.29			<del>-</del>
South Africa (44)354.90	-1.8	321.23		319.90	349.89	-1.5	2.47	361.36		259.17			448.01	360.08	
Spain (35)252.51	-1.4	228.55	181.04		280.00	-1.2	2.33	256.17				355,26	370.12	301.49	
Sweden (49)464.95	-0.7	420.83	333.34	419.09	534.49	-0.7	1.93	468.22	423.72		421.00	283.51	262.42	171,91	
Switzerland (35)296.03	-0.8	269.75	213.67	288.63	267.50	-0.3	1.25	300.55	271.99	215.55		538.38	468.22	334.35	
Theiland (43)50,96	-6.3	46.14	36.55	45.95	51,11	-6.3	6.11	54.40	49.23	39.02	270.24	268.26	301.09	231.69	
United Kingdom (212)302.58	-1.2	273.87	216.93	272.73	273.87	-12	3.68	306.36	277.25		48.92	54.56	172.82	50.98	
USA (649)362.03	0.1	327.68	259.55	328.32	362.03	0.1					275.46	277.25	308.21	229.83	
day last municulation there are		327,100	23320	320.32	302.03	U. 1	1.69	361.61	327.24	259.34	325.14	361.61	362.03	254.79	271,08
Americas (618)331,13	0.1	299.71	237.40	298.47	278.91	0.1	1.69	330,79	299.36	237.24	297.43	278.59	331.13	233,09	247.51
Europe (727)	-1.0	240.08	190.17	239.09	246,92	-0.9	2.60	268.01	242.54	192.22		249.07		204,71	
Nordic (150)	-0.6	360.02	285.17	358,53	395.91	-0.7	1.81	400.30	382.26	287.10	359.93	398.49	401.58	291.45	
Pacific Basin (882)156.20	-0.2	141.38	111,98	140.79	113.37	-0.3	1.25	156.56	141.68		140.77	113.69	170.85	127.18	
Euro-Pacific (1609)201,71	-0.7	182.57 -	144.62	181.82	163.76	-0.6	1.99	203.07	183.77	145.64		164.75	203.07	173,56	
North America (761)352.71	0.1	319.24	252.87	317.93	352.05	0.1	1.70	352.40	318.91		316.86	351.68	352.71	248.65	
Europe Ex. UK (515)239.07	-0.9	216.39	171.40	215.49	226.44	-0.7	1.99	241.28	218.35		216.94	227.95		185.65	
Pacific Ex, Japan (397)306.82	0.1	277.71	219.97	278.56	269.46	0.0	2.77	306.56	277.43		275.64		320.65	268.97	
World Ex. US (1822)205.37	-0.7	185.88	147.24	185.12	170.48	-0.6	1.97	206.71	187.07		185,88		206.71	176.94	
World Ex. UK (2259)250.70	-0.2	226.91	179.74	225.98	220.47	-0.1	1,85	251.18	227.31	180.14	225.84		251.18		
World Ex. Japan (1986)315.04	-0.3			283.97	305.11	-02	2.06		285.91	226.59		305.79		199.58	
The state of the s				اسم	JUJ. 1 1	-0.2	2.00	313.23	200.8	420.09	الدموء	345./9	ككدواه	233.10	244,67

The World Index (2471)......255.20 -0.3 230.99 182.96 230.03 225.50 -0.2 1.84 255.94 231.62 183.58 230.13 226.08 255.84 202.32 213.08





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## POWER GENERATION EQUIPMENT



## Industry faces unprecedented demands

1ds stocks dow little sign of coming to an

early end. Even though the world's demands for power generation equipment are growing, tough competition among suppliers has depressed prices and squeezed margins. In the past year, Rolls Royce, the UK engineering group, has bowed out of the market for big power stations by selling Parsons Power Engineering Systems, once one of the most famous names in steam turbine manufacturing.

But Rolls Royce's partial retreat from the industry (it reduce the total excess capacity that the industry acquired in a hasty over-ex- per cent growth. pansion in the 1980s and early 1990s. That would require a much more significant producer to give up the

The battle for survival prices have fallen by an esti-in the power engineer-ing industry shows signs that the market may signs that the market may be stabilising at its unprecedentedly low price level.

"It may be wishful thinking but I think prices are not falling as fast as before." says Mr Adolf Hüttl, president of KWU, the power generation division of Siemens of Germany. "But at this level everybody is having headaches."

In volume terms, most producers think the market is growing steadily, powered mainly by demand from east Asia. General Electric, the world's largest manufacturer, estimates orders will grow at about 2.5 per cent a remains a maker of smaller year for the next decade. turbines) will do little to ABB, the Swiss-Swedish group, is a little more opti- panies will even sell equipmistic with a forecast of 2-4 However, Mr Randy Zwirn,

executive vice president in charge of power systems at Westinghouse Electric, says Competing suppliers are working hard to enhance performances so as to win market share, but not all of them will be rewarded for their efforts, reports Stefan Wagstyl

With profits limited in the new equipment market, manufacturers are putting ever-increasing emphasis on raising income from aftersales services, which already accounts for 50 per cent of GEC turnover at some companies and an even bigger chunk of profits. Once the dowdy end of the industry, services now encompass an increasing range of sophisticated highmargin operations - such as on-line monitoring of clients' power stations. Utilities say that power equipment comment at a loss in the hope of making bumper profits from

ures, it seems clear that ser- but the figures exclude other order increases could be vice income contributed sub- serious losses from nuclear After four years in which delayed as 1997 has started stantially to improved

profits in the industry last year. Of the six integrated manufacturers, three - GE, Slemens, and Japan's Mitsu- improvement in margins." bishi Heavy Industries posted big increases in profits from power generation. Alsthom, the Anglo-French group which has yet to report results for the year ending March 1997, says its profits were flat. At ABB, power generation prof-\$561m (compared to a strong Westinghouse slipped deeper into the red in power generation, with a loss of \$183m, after rationalisation and other special charges. With-Although producers do not out these the business would give detailed financial fig-have made modest profits

"Everybody is under pressure but with cost reduc- ticularly true in gas turtions we ought to see some says Mr Mike Barrett, commercial director of the power generation business at GEC

r Barrett's cautious comment contrasts sharply with the optimism which gripped the industry in the late 1980s and early 1990s, when it 1995 result) due partly to expanded capacity. It hoped rationalisation charges. to capitalise on deregulation in the developed world, which was creating opportunities for independent power producers, and from strong demand in fast-growing east Asian countries, notably China.

> But orders have grown less rapidly than expected. leaving manufacturers with duced a bonanza because its only 56,000MW of indepen-

power generators are bines, a fast-evolving technology in which suppliers ate in competitive markets. invested especially heavily. GE estimates that gas turbine capacity rose 70 per cent in the early 1990s to 36,000MW a year, about 20 and steadily moving ahead per cent ahead of output. In in the US, but is still in its steam turbines, which are

used in traditional coal-fired and in nuclear plants, overcapacity of 70,000MW is about 10-15 per cent ahead of annual demand, according to GE. However, the competition in steam turbines is because producers in the developing world and in ex-Communist countries are capable of manufacturing the equipment, notably in China and Russia.

influence has proved far more complex than anticipated, both in the developed and the developing world. 1990s. Where utilities once routinely passed cost increases on to customers, today's

increasingly forced to oper-The extent to which this transformation has occurred varies greatly. It is particularly far advanced in the UK earliest stages in other western European countries and

In the developing world, it is proving far easier to sketch a project than to finance it. because of the risks and novelties involved. even more cost-sensitive, Hagler Bailey, the US consultancy, says that proposals for independently-financed projects outside north America are soaring, with 638 projects for 153,000MW launched last year, taking the total to Deregulation has not pro- 2,480 with 862,000MW, But

duction has actually been brought on stream in the

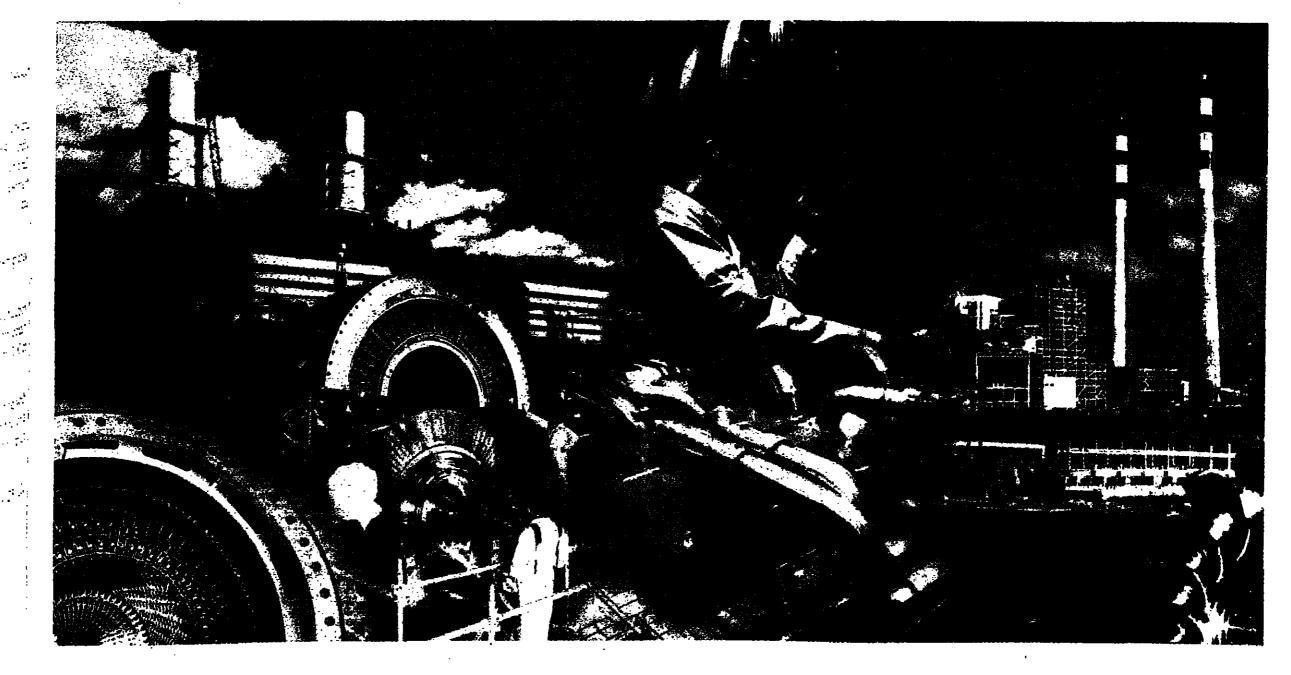
As a result, plant manufacturers expect little recovery in demand in north America or western Europe before 2005. In eastern Europe and the former Soviet Union, the decline in industrial production which followed the collapse of Communism has created excess generating capacity. Investment is sorely needed in up-dating old plants to cut pollution and increase fuel efficiency. But funds are in short supply, except for important

Turn to back page □ Also in this survey: international markets, see pages 2 to 5. ☐ Project finance: page 4.

Editorial production: Michael Wiltshire. Graphics: Andrew Burns (page one), Bob Hutchison

□ Servicing: page 6.

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CHINA'S POWER SECTOR • by Tony Walker in Beijing

## Keeping bidders in suspense

Foreign power equipment suppliers competing for the supply of turbines and generators for the world's largest hydro-electric project reads like an industry 'who's who'

regulatory and bureaucratic to "cap" - at unrealistically development and frustrated of power projects. foreign investors.

Laibin B, a \$650m 700-mega-watt coal-fired facility in southern Guangxi region, is 'model" for other such pro-

Similarly, the announce-Capital of the US of a \$250m agreement to upgrade the Shanghai presents another for foreign investment. possible avenue for foreign power sector investors. GE described the investment as the "first long-term, nonfinanced power project in from CDP growth.

Both the Laibin and Zhabei projects are proceeding power sector during its without Chinese sovereign bank guarantees - a sticking (1996-2000), about 20 per cent point in the past.

China's agreement to drop

INDIA • By Sunil Saraf in New Delhi

hina's power sector eign operators and their appears at last to be bankers had viewed as unacfreeing itself from ceptable attempts by China coils which have constrained low rates - the profitability

But approval for Laibin Beijing's approval of the and Zhabei does not necesfirst private, foreign-owned sarily mean there will be a power station is regarded as flood of new foreign-invested encouraging by investors. power projects under buildoperate-transfer (BOT) type

Beijing is likely to proceed touted by China as a cautiously until it is satisfied that "models" such as Laibin are working satisfactorily. However, pressures ment last December by GE on the government to bridge the gap between electricity supply and demand will con-Zhabei power station in tinue to provide an impetus

It is estimated that powershortages, especially in energy-starved southern areas where growth is most rapid, guaranteed commercially shave 1-2 percentage points China plans to spend

Yn690bn(\$85bn) on the ninth five-year plan from foreign sources, including "soft loans" and commerits insistence on limiting the cial money. It intends to add rate of return on power pro- 15,000MW a year to the presjects cleared the way for ent total of around both Laibin and Zhabei. For 200,000MW by 2000. But this



Daning River: part of the region that will be flooded to create the co ing Three Gorges hydro project, due for completion in 2009

cally short of electricity to power its economy which has grown on average by 10 per cent annually since it opened to the outside world nearly two decades ago.

A western embassy study notes that China has fallen short of its own targets of 15.000-17.000MW of new capacity annually. The study also pointed out that because the country's power plants have utilisation rates higher than world standards. plant and equipment degrade prematurely. Inevitably, the study said,

only to develop capacity, but also to replace outdated and inefficient equipment. But China certainly can-

not be accused of standing still in its efforts to get on top of its power supply problems. It is "corporatising" its Ministry of Electric Power, separating commercial activities from the ministry's regulatory responsibilities, to expedite the "commercialisation" of the power sector.

China has also established a National Grid Construction company to manage completion of a Chinese grid

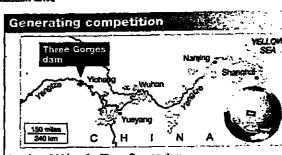
will still leave China chroni- China is under pressure not by 2009 - the year when the giant Three Gorges hydropower project on the Yangtze is due for completion. A separate company will manage power distribution

through the national grid. Overshadowing all this activity is construction of the Three Gorges dam itself, a \$30bn project, regarded by the Chinese as a symbol of their modernisation drive. At capacity, the 18,200MW project will produce 84.7bn kWH, one-ninth of the 1993 national total.

It is by far the world's biggest hydro-electric power project, probably the most challenging technically and certainly one of the most controversial, politically. Bids are being processed now for equipment supplies for the first stage: 14 of 26 700MW power units, including turbines and generators.

Bids have also been called for civil works. Bidders include six domestic civil engineering companies. They will be responsible for dam wall construction, spillways, and structures housing turbines and generators. Foreign power equipment

suppliers competing for supply of turbines and generators read like an industry 'who's who". Consortia include Anglo-French group GEC-Alsthom and Neyrpic of being unable to guarantee France; Mitsubishi Heavy payments for private power Industries at the head of a away, keeping bidders in prompted the government in Japanese group; Impsa of suspense until the last to sovereign guarantees to Ukraine, Voith and Siemens pliers chasing their biggestunderwrite eight "fast track" of Germany, and General ever contracts, the stakes projects, including the Dab- Electric of Canada; LMZ rep- could hardly be higher.



project on the Yangtze is regarded by the

1st stage bidders for Three Gorges dam CONSORTIA

Volth and Siemens of German General Electric of Canada

Kvaemer of Norway

ECGD of UK

Export-Import

tion" power projects to meet emphasis on private sector Rs100bn (\$2.79bn) - largely their rising power shortages. projects - which had in turn the result of offering uneco-India's power shortfall is proved slow in proceeding. The projects have been Five years on most prigiven six months to pull worsening, with together their financing vate sector projects remain shortages of 30 packages, which will be a mired in bureaucratic delays challenge; in that the private and the complexities of per cent in the operators will have to win reaching power purchase most power-

deprived states Private sector power Public sector operations in developers in India have had India have a poor record of an agonising wait, but around 12,000 MW of fresh commercial conditions. generating capacity is now poised to come on stream of this new generating notably the 1000MW Vizag after a year-long wait for capacity, the response will project being pursued by approvals from the central fall a long way short of the National Power the IK

plants could begin within Delhi to be the additional the next few months. The need between now and 2002. wait has been for guarantees that fuels will be allocated to the project. Supplies and for the five-year plan coversales of all petroleum prod- ing the period, believes new ucts in India remain almost projects will in fact reach wholly controlled by central only 38,000 MW of the

The expected new capacity third of 34,000MW in capacity for "short-gestation" projects which have so far been proposed to Indian state governments by interested pri-shortfall which averages 9

The petroleum ministry permits to some of the projects in April - most of which are to be fuelled by naptha. What concerned the ministry was fears over the stability of supply of naptha. In the event, the addition worries about the possible import bill for the liquid fuel increased Indian demand could push up world prices and with them the eventual Indian power tariff.

finalise financing for their cern that its attempt to open ning commission reckoned projects, which were a the power sector to foreign in its annual review this response to several Indian and private investment in year that the 19 utilities states calling for "fast gesta- 1992 had put too much would make losses of

financially tight guarantees from the public sector enterprises which supply the fuel.

government for fuel sup- 57,000 MW which has been estimated by the Central Construction of the new Electricity Authority in

India's planning commis-

sion, which sets the targets government despite the past needed capacity. And six years of economic already that figure is being quietly downgraded by some insiders, with a figure of would represent a nearly a 34,000 MW seen as more realistic. If so, India's dismal record of under-achievement in power generation will continue, worsening a power per cent across India and hits shortages of 30 per cent started issuing fuel supply in the most power-deprived states. The preceding fiveyear plan, which ran up to 1997, had estimated that India would add 48,000 MW of new power in the period.

was just 17.668 MW The worsening crisis recently prompted the government, in its February budget, to increase allocations for public investment into power generation by a Private developers offering further Rs9bn on the Rs71bn the naptha-based projects already committed. The rise must now move swiftly to reflected government con-

agreements acceptable to both state governments and the central government in New Delhi. Some projects have also been held up by meeting such strictly defined the difficulties of reaching commercially viable agree-But even with the arrival ments for provision of coal, power group, and the Hindu-

jas, the "non-resident Indian" group. The joint ven-

The primary problem is the poor financial health of almost all the 19 state electricity boards

ture is still to reach agreement with Coal India Limited and Indian Railways for guaranteed fuel supplies. Altogether, out of more

than 194 private power pro-posals received by Indian state governments - which in India have the effective jurisdiction over power purchase and run the state electricity boards which are the purchasers of private power only 14 are believed actually to be under construction or

producing power. The primary problem is the poor financial health of almost all India's 19 state electricity boards. The plan-

nomic tariffs to farm and domestic consumers. Cheap power for farmers, in particular, was identified as the main cause · resulting from the state governments' political control of the state electricity boards, and the political importance to most state governments of the farming constituency.

The problem of the lossmaking state power boards 1992 to offer what amounted hol power project in Maharashtra led by Enron, the US power group.

But so far only two of the projects have actually begun producing. Indeed, the only two "fast track" projects actually generating power. are doing so because they have gone ahead with construction even before the guarantees have been approved. These are the project led by GVK Industries, the Indian group, for a 420MW plant in Andhra Pradesh, and that led by Spectrum, the Indian group and the promotors of a 208MW project at Godavari

also in Andhra Pradesh. Altogether, five years into the private power initiative. only 513MW of India's total generating capacity of 83,000MW has been added by new private producers.

Of the foreign-led private projects, only the Dabhol Power Project is on course. The project was famously scrapped two years ago by the newly-elected Maharasthra state government while already under construction. before the state government reversed its decision a year later. Phase one of the project, a 740MW unit which will eventually be expanded to 2,400MW, is now well under

Most of the other "fast track" projects, including a 1,000 MW project in Mangalore, led by Cogentrix of the US, the 1,040 MW National Power/Hinduja project in Vizag, a 240 MW plant in Tamil Nadu led by CMS of the US, and a 420MW plant in Orissa contracted to AES Transpower, also of the US, are still struggling through state government reviews into the cost of the projects and the eventual power tar-

In virtually all cases, and particularly since the Dabhol project in Maharasthra, state governments have decided to they had already agreed with private contractors. And the projects have been further delayed in New Delhi, where the finance ministry, which opposed from the outset the notion of offering guarantees to back the projects, has not hurried the award of such guarantees, worried about the potential liabilities to the central government.



**EDF-GEC ALSTHOM POWER STATION** 

China's first power station financed entirely by foreign Investment will be built in Guancod province by Electricité de France and GEC Aisthom, the consortium leader. The Laibin 'B' BOT (build, operate, transfer) project is worth more than FF3bn.

☐ A similar power plant, pictured left, is located at Luo Huang in Szechuan province one of 30 plants built by GEC Alsthom in China since 1957. The company has supplied equipment for coal, gas, nuclear and hydro projects.

INDIAN UTILITIES: TATA ELECTRIC COMPANIES • by Naazneen Karmali in Bombay

The planned \$30bn Three Gorges hydro-electric por

ese as symbol of their mod

resenting Energomachexport

of Russia and Sulzer of Switzerland; and ABB Power Gen

of Switzerland and Kvaerner

The Three Gorges Project

Construction Committee of

the State Council, or cabinet,

is presently evaluating bids

and is expected to make recommendations within the

next month or so. A signing

ceremony is planned for

August. Front runners for

supply of turbines are

thought to include Voith of

Germany, Kvaerner of Nor-

way, Neyrpic of France and

GE of Canada. Siemens, ABB

and GEC-Alsthom are

believed to be leaders in the

Meanwhile, the Chinese

authorities are giving little

tussle for generators.

of Norway.

## Troika stirs into action

Tata Electric Companies expect to invest Rs30bn in new projects over the next four years

In India's state-dominated and regulated power sector, the largest private utilities are the Tata Electric Companies (TECs); a troika of companies belonging to the Tata business group comprising Tata Power Company, a new 450MW naptha-based Andhra Valley Power Supply Company and the Tata Hydro Power Supply Company.

Now more than 85 years old, the TECs have a combined generation capacity of 1,624 megawatts from four thermal and three hydroelectric units - private Tatagenerated power supplies most of Bombay. With a turnover of Rs23bn cost of Rs9bn (\$250m).

and net profits of Rs3bn. take a harder look at deals they have long been regarded as efficient, but rather sleepy entities. The three, which are separate the southern state of Karnacompanies under a joint taka, and is pursuing other management, won licences to provide private power between 1910 and 1920.

But today, six years after of Jammu and Kashmir. the Indian government allowed wider foreign and generating capacity, the private participation in company is spending Rs4bn power. Tata Electric is shed- to upgrade its transmission ply act were set to allow in India. And that's where ding its conservative ways and distribution network in power companies to recover the company's focus will be.

projects outside its home base of Maharasthra state and increasing capacity in existing units. "We've been hibernating

for a long time, but now we want to grow and evolve into a total energy com-pany," says Mr Homi Sethna, chairman of Tata Electric. Tata Electric recently won state government approval,

after a long wait, to establish

plant at Bhivpuri in Mahar-

ashtra. It has also put in bids for two proposed new hydro plants in the state. Further stield, the company is in the process of buying an existing 67.5MW plant from Tata Steel, a sister within the diversified Tata family, in eastern India.

The plant's capacity will be expanded by 240MW at a The power group has meanwhile won approval for two "short gestation" proiects of 40MW output each in projects in Andhra Pradesh. Guiarat, Orissa and even in

the politically troubled state Aside from extending its efficient than state-run on capital. Excess earnings, grids, which average T&D losses of between 2040 per have to be partly returned to cent. Elsewhere, it is seeking customers. But Mr Sethna, a to build a 400,000 kilovolt chemical engineer who spent transmission line to link the much of his career as a southern cities of Mangalore and Banglaore in Karnataka. atomic energy programme,

Tata Electric Companies expect to invest a total of Rs30bn in new projects over ting costs by 2 per cent a the next four years. And it is year. Though, according to a thrust, analysts say, which Mr Nitin Anandkar, energy has been prompted by the analyst at Jardine Fleming emerging competition under in Bombay. Tata Electric is India's newly liberalised already among the lowestpower regime. Two years cost power producers in ago. BSES, the private Bom- India, partly since 20 per bay-based utility which is cent of its power derives among TECs' biggest cus- from its hydro plants which, tomers, commissioned a being more than 50 years 500MW plant and became its old, are already fully deprebiggest rival overnight. Now ciated. companies such as Enron,

the US power group building of TECs' main customers. the notorious Dabhol power plant in Maharashtra, along with local companies like Reliance Industries, the petrochemicals and textiles where demand has been group, have suddenly growing by a modest 5 per emerged as promoters of large-scale power projects.

Mr Sethna says TEC had inertia, used to cosy cost-plus arrangments which under a 1948 electricity sup-

and stirring into action. It is Bombay - a network which all costs and earn an addiventuring to establish power is already considerably more tional return of 17 per cent is already considerably more tional return of 17 per cent under the arrangement. bureaucrat with India's Overall, says Mr Sethna, is determined to change the

"cost-plus mentality". He has set a target of cut-

But now, with BSES, one generating its own power, Tata Electric faces the challenge of finding new customers within its licenced area, cent a year.

The company had looked overseas, to Malaysia, Iran, been somewhat held back by Dubai and Saudi Arabia for opportunities, where it worked as a contractor to allowed the companies com- power projects. But now, fortable returns. Tariffs, says Mr Sethna, the big opportunities are seen to lie

Construction of new power plants in India could begin within months. Pictured here is a 500MW

intermediate pressure turbine rotor from GEC Turbine Generators, used at Rihand Power Station



The second second

EDF-ESC III POWER STOP

POWER GENERATION EQUIPMENT 3

SOUTH-EAST ASIA • by Frank Gray

## Attraction for overseas investors and suppliers

Demand is increasing for joint ventures involving local partners

South-East Asia may be the smallest of Asia's three main regions - China and IPPs, the four countries are pressing South Asia being numbers one and two ahead with plans to restructure and but its eager embrace of privatisation has made its power sector the most attractive in Asia to overseas suppliers and investors.

Led by the Philippines, Indonesia. Malaysia and Thailand, several dozen independent power projects have either been completed or are under construction. In the Philippines, 26 international power projects (IPPs) have been completed, comprising approximately 3,400 megawatts of capacity. In Indonesia, 13 IPPs have been contracted for with a total capacity of 7,500 MW.

Malaysia has seen some 2,000 MW of independent power units built with is setting up a generation unit that will more under way, Thailand has privatised its 1,350 MW Rayong power complex and the government has signed

contracts for 21 small independent projects (SPPs) with a capacity of 1,124 MW. It is planning 4,100 MW of larger IPPs by 2002 after successful bids by 10

In addition to commissioning new privatise their own state-run utilities. The Philippines is preparing the entire flotation of the National Power Corporation's thermal assets; key hydro projects will be kept under state control. Individual thermal units run by NPC are also being prepared for sale to independent operators

In 1992, Malaysia's sold a 22 per cent stake in its Tenaga Nasional Berhad (TNB) to the private sector, it is now restructuring the utility to prepare it

for further privatisation. According to Mr Ahmed Tajuddin Ali, the TNB chief executive, the utility manage and operate existing power plants; another unit Tenaga Nasional Engeenering, will be responsible for

consultancy and engineering project of Indonesia's power requirements, this management

By the autumn, TNB expects its spun-off power generating unit to be supplying all the utility's power. The idea, he says, is to increase TNB's flexibility and make it more efficient.

#### Sharper focus

The decentralisation and corporatisation of the various units will lead to more focused accountability and efficiency in operation. Thailand's Electricity Generating Authority (EGAT) has already sold some of its assets and hopes to go fully into the private sector by 1999, although the utility's unions have stalled the sell-off timetable by a

Indonesia's PLN, the state utility, is undergoing a restructuring with plans for a minority share flotation, of two spun-off companies Genco 1 and Genco each responsible for power generation on Java and Bali. This could take place by 1998, although given the scale ers are manufacturing within the

may take longer. According to analysts, what appears certain is that early in the next century, virtually all the utilities in South-East Asia will be private sector companies, running alongside a multitude of independent power producers and, in some cases, power transmission and distribution compa-

The region itself plans to double its capacity by 2005, that is, add 100,000 MW of new capacity, some of which will be undertaken by the state and increasing amount of which will be private sector. This implies an order book

Increasingly, joint venture projects involving a local partner are required, and as much local sourcing as pssobi-ble is encouraged, such as civil engineering on power projects. But utilities themselves will still have to source virtually all their hardware from companies in North America, Europe and Japan. However, many equipment-mak-

in licensing deals with local manufacturers. This was emphasised recently by Asea Brown Boveri, the European largely to "an increased demand from grids and to grid maintenance, emerging markets." Revenues from "This would help reduce grid based business to more local val- profitability," says the agency. ue-added. Our ambition is that by 2000, Asian orders will surpass \$15bn." says Mr Goran Lindahl, the chief executive.

#### Grid operations

The utilities have been criticised for over-emphasis on generation and to little attention to grid operations. This was especially notable in the Philippines where, several years ago, a num-ber of IPP schemes had virtually come on line but had no outlet through

which to distribute their electricity.

While some progress has been made,

Distouris

**Aomania** 

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Czech Republ

region through overseas subsidiaries or largely thanks to aid support from the Asian Development Bank, the World Bank and the Japanese OECF, the issue sparked comment from the Parisconsortium, which attributed its 16 per based International Energy agency. cent increase in first quarter orders which called for more attention to

"This would help reduce grid losses Asia Pacific, says ABB, increased by and make a significant contribution \$527m to \$8.7bn in 1996. "In Asia, we towards lowering costs, improving syssuccessfully moved from an export-tem reliability and enhancing utilities

> "Rural electrification programmes should be carried out independently from 'regular' urban-industrial electric ity supply and, preferably, by separate rural development agencies which also promote the development of other types of infrastructure."

> The agency adds that the region's government "should work towards hasing both pricing structures and pricing levels on marginal cost to a greater extent than they do at present".

> ☐ The writer, Frank Gray is editor of Power in Asia', a Financial Times Energy Newsletter.

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EASTERN EUROPE • by Anthony Robinson

## story of declining capacity

Apart from Poland and Hungary, a lack of urgency delays power projects

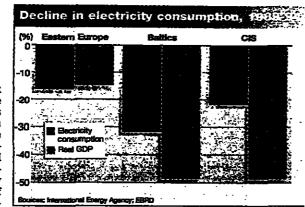
The ravages of time and lack of funds for even routine maintenance in many parts of eastern and south-eastern Europe in particular have whittled away the huge overcapacity which characterised the power generation industry after the centrally planned war-economies of the communist world collansed in 1989.

This has not yet led to the looming power shortages which would make heavy investment in new plant a necessity because industrial production remains far below 1989 levels in large swathes of the region. including Russia, Ukraine and the Balkan states.

The hardest hit have been the traditional heavy power consumers - notably the steel, armaments and chemical industries - and the collanse in their demand has far outweighed the modest growth in electricity demand from households and mainly small private industries.

The big exceptions to this picture of declining capacity (see report, below), which is now into its fifth year of sustained economic growth and Hungary where industrial production surged 30 per cent over the last two years as Forint devaluation and the government's tight squeeze on domestic incomes forced producers into export

The Czech Republic, which retains the bulk of its Sovietera power engineering capacity intact is currently reeling from a flawed privatisation scheme which delayed the rationalisation and modernisation of its enterprises. An

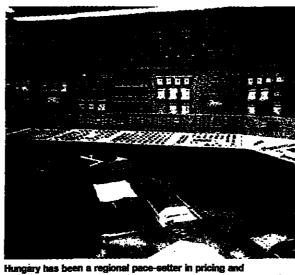


heavy engineering sector is likely to result. Meanwhile, lower than expected growth will keep electricity demand subdued until the Temelin nuclear power station comes on stream towards the end of the decade.

Despite the lack of urgency for new additional capacity in the region, however, the need to tackle the pollution, cost and reliability problems with ageing conventional and nuclear power plants, coupled with eco-

central Europe - including some of the Baltic states and Slovenia and Croatia translates into increased investment in re-habilitation, modernisation and environmental protection schemes to raise both efficiency and safety. Billions of dollars are now

available from the international financial institutions for such investments. The World Bank alone has a \$5.6bn portfolio of energy-related investment projects, nomic recovery in much of mainly in Ukraine and Rus-



ation strategies. Pictured here is a section of the control

heating renewal projects in Bulgaria, a quick-start gas turbine project in Hungary and two big power generation rehabilitation projects at Dolna Odra and Rybnik in Poland. Two other leading sources of finance for powerrelated projects are the European Bank for Recon-

Investment bank, (EIB). The EBRD signed up to energy projects worth more than \$870m last year alone. But it balked at financing the construction of new gasfired plants in Ukraine to replace the Chernobyl nuclear reactors on the grounds that Ukraine did not need new generating capacity and there were better ways of spending the bil-

struction and Development

lions of dollars required. The involvement of the **EIB** is likely to increase as more and more former communist states enter or prepare for entry to the enlarged European Union with its tough requirements for transparent energy pric-ing and emmission controls. Energy sector lending to

the region accounted for Ecu 363m (\$425m), or roughly a third of the \$1.3bn invested in the region by the ing institution last year. A typical EJB project is its

\$82m loan, guaranteed by a syndicate of 11 commercial banks, to upgrade boilers, steam turbines and transformers at the Vojany power plant in Slovakia. Apart from financing reha-

bilitation and other powerrelated projects, the international institutions have argued strongly for the kind of market-related tariff, pricing and privatisation strategies required if the regions power companies are to build up the financial reserves needed to fund the new investments which will

sia but including big district become increasingly urgent bilitate over 1.400mw of concentury.

Hungary has been the pace-setter in this regard with the privatisation of six power utility companies and two power plants in 1995 linked to a government committment to raise tariffs sufficiently to ensure an 8 per cent return for foreign inves-(EBRD) and the European

At the last minute, however, the government balked provide nearly \$240m for at the political opposition to the rate hikes required, angering foreign companies such as Belgium's Tractebel which reacted by putting on ice plans to invest over \$40m in a new gas-fired rower station in southern Hungary.

A credible new reformist

government in Romania meanwhile has raised the profile of a large country with an appalling record of polluting and inefficient power plants, refineries and heavy engineering plants.

The World Bank and EBRD are providing loans for the government's power sector renovation programme. This plans to reha-

in the early years of the next ventional thermal power generating capacity which is notoriously inefficient, mainly because of low quality coal and antiquated, poorly maintained power generating plant.

It is a similar story across broad swathes of Russia, Ukraine and central Asia which are virtually black holes capable of absorbing vast amounts of capital investment and requiring a huge amount of new or reconditioned plant and equipment for as far ahead as anyone can see.

It is this prospect which has attracted the big western power generating companies, especially ABB, Siemens and other European producers. Westinghouse of the US is seeking a toe-hold in the nuclear power engineering area while other big US power corporations such as General Electric, which has a big consumer light bulb and related investment in Hungary's Tungsram, are still watching a market which is developing more

Hungary Crostia per \$1,000 of GNP at PPP couchange rates as ABB originally expected.

Electricity Intensity of outpot

ABB, for example, now employs more than 19,000 people in dozens of plants throughout the region. They produce relatively cheap components for ABB's global markets but their full potential will only be realised when the demand for power generating equipment really takes off in the central and east European and central Asian markets, Meanwhile local power generating equipment companies, such as Poland's Elektrim, are generation - and telecomslowly than companies such busy expanding their export

capacity in markets such as Turkey and Asia. Russian power companies, such as Gazprom, are also teaming up with equipment makers.

Last year the Russian gas supplier teamed up with Skoda Pizen, the Czech engineering company and Lyulka Saturo, a Russian power engineering company, to produce gas-fuelled turbines. It followed this up with a co-operation agreement with Siemens to develop projects in power

#### POLAND • by Christopher Bobinski in Warsaw Kitted up and raring to go

At four-fifths capacity, Dolmel is vastly improved from 1990, but is pressing for more

Seven years after being taken over by ABB, few of the 600 employees at Dohnel, a plant producing power generating equipment in the Polish town of Wroclaw. appear to have any concerns about their skills, machinery

"People come to our plant, saying we should see their facilities in western Europe, but once they've been shown around they recognise there's no need," says Mr Roman Bulinski, the Dolmel sales and marketing department manager. The aura of modernity which imbues the giant production hall where heavy generators are made has come at a cost of the technologies, as western \$20m, which ABB bas invested in the plant since willing to sell licences to

All this is, of course, as it control. should be. After all the airproduced at Dolmel carry ity standards. Dolmel is also the specialist in the ABB group for refits of 200MW nology developed in Wro-

big engineering plant which makes steam and gas tur-bines. The moves were the first in a strategy which sees ABB controlling 16 companies employing about 7,000 people in Poland, mainly in the power generating equip-

head of ABB, came as salvation for Dolmel. The plant, which had produced most of the country's generators in the post-war period, was working at 20 per cent capacity as power industry invest-

Earlier it had bought licences such as the one for 360MW generators from Brown Boveri for installation at the country's giant Belchatow power station. But after 1989 Dolmel had little chance of access to new companies were no longer manufacturers they did not

"Our local market had colcooled turbogenerators being lapsed, we faced the danger produced at Dolmel carry of losing export markets, we the ABB stamp and have to couldn't develop our product come up to the engineering and we had run out of cash," multinational's world qual- is how Mr Bulinski describes Dolmel's plight in 1990. The allure for ABB of tak-

ing a dominant position in generators and has sold tech- Poland's power generating equipment industry was a claw for expanding their large local power generating capacity to 230MW back to sector which would soon be needing refits and expan-ABB bought a controlling sion. The Swiss Swedish deliveries of new equipment partners in Birr and Mannshare in Dolmel in 1990, the engineering giant also saw to the local market and heim.

year the company took con-trol of Zamech in Elblag, a markets in what soon doing refits in local power become the former Soviet stations. Half of the compa-

fully realised, however, with sale through ABB's world the former Soviet Union's market still in the doldrums. Also spending in Poland on refitting the power generating industry in the first half The bold foray by Mr of this decade was low. Only Percy Barnevik, the then now is an estimated \$2bn being spent annually on refits and new investments.

This is set to grow to \$3bn a year and more after 1999, according to government

> competitors for the local power generating group. market such as US group Westinghouse, Germany's Siemens and Skoda from the Czech Republic. Until now net profits have

been relatively low at Dolcost of any power station investment programme with its generators. They have run at no more than \$2m a year up to 1994, rising to \$5m in 1995 and giving ABB little joy from the six-year tax hollast year, but only thanks to

Exchange listed company.

ny's revenue was earned by That promise has not been delivering equipment for network.

Currently the factory is working at four-fifths capacity, which is vast improvement on the situation in 1990. But given that Dolmel's wage costs are lower than in quality is as good, the company is pressing for more orders to be placed in Wroclaw than in Mannheim in Germany, or Birr in Switzer-This is the moment which land, where similar genera-Dolmel is waiting for, as are tors are made in the ABB

In spite of the aim of Mr Goran Lindahl, ABB's new head, to move production to emerging markets such as that "Dolmel's supervisory mel, which can expect to board meetings see constant earn up to 5 per cent of the pressure from the local people fighting for their factory's interests".

At the same time Dolmel is beginning to look anxiously over its shoulder at investments which ABB might make in even loweriday it was granted in 1990. cost economies, such as Rus-Net profits did rise to \$25m sia itself. Many of Dolmel's generators were produced an extraordinary profit under licence from Elektroearned when the company sila, a generator producer in sold its valuable stake in St Petersburg with which Elektrim, a Warsaw Stock ABB is in contact. Were that company to be brought into Dolmel's revenues last the ABB group, Dolmel year reached 210m zlotys, of would find itself in the which 20 per cent came from higher cost group with its

## **ROLLS-ROYCE FOCUSED ON** THE POWER MARKET **UP TO 150MW**



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ROLLS-ROYCE INDUSTRIAL POWER GROUP NEI House, Regent Centre, Newcastle upon Tyne NE3 358 PROJECT FINANCE • by Simon Holberton

## Advent of the merchant plant

A trend in the developed world is towards power stations that generate as the market demands

ľV

The development of independent power projects remains one of the biggest growth businesses. The scale of demand is astonishing and the mobilisation of private capital to finance that demand equally impressive.

Leading banking institutions - such as Chase Manhattan, JP Morgan and Barclays de Zoete Wedd support large teams of prosionals scouring the world for "bankable" power pro-

Figures compiled by Hagler Bailly, a consultant which tracks the power industry, show that solicitations for greenfield power projects totalled about 95GW (gigawatts) last year. That is equivalent to an electrical system one and a half times the size of Britain's.

It also represents a 50 per cent increase on the level of solicitations in 1995 and a nearly three times demand in 1994 Forecasts of demand may be open to question, but be underpinned by rapid and long-term fuel supply

Theiland

Colombia

Indonesia

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Name:

Company:

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Nigerta 🐬

Argentina.

construction of projects. "In March 1992 we tallied only 178 projects initiatives with a total capacity to 87GW," Hagler Bailly says.

"We now count some 2,480 independent power initiatives in 101 countries outside the US and Canada, totalling 862GW. For 1996 alone, we observed an increase of 638 projects with 153GW - the equivalent of a 36 per cent jump in the number of projects and a 23 per cent increase in their associated capacity."

The main trend that bankers identify in the developed world is the advent of the merchant plant. This is a power station that has no secure long-term power purchase agreement (PPA) with a distributor but generates as the market demands.

It is necessarily a higher risk project than one backed by a long-term fuel supply agreement and a PPA of equivalent duration.

"The structural problems are fundamentally different from those of a back-to-back deal " says Mr Gareth Brett. co-head of structured finance for the power industry at BZW. "Merchant plants require a less aggressive capital structure. They need more equity up front so that debt service is less onerous. Plants backed by PPAs

Top 20 markets: international power projects - demand by country

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FINANCIAL TIMES

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15,970

Type of IIP Project	S. America & Mexico	Africa & Mid <del>-Eas</del> t	Europe	Asia	Total	% of total
Operating.	23,694	2,427	46,232	50,039	122,392	14
Greenfield	4,705	776	23,503	27,422	56,406	7
Privatised	18,989	1,851	22,729	22,617	65,986	8
Under development	88,847	62,303	76,784	516,340	739,273	86
Greenfield	60,494	57,708	66,670	513,318	698,189	81
Bid Awards	2,570	4,794	1,873	57,415	66,652	8
Unsolicited/under developmer Unsolicited/Preliminary	8,744	1,869	14,518	73,347	98,477	11
	35,531	23,882	48,771	283,303	391,467	45
Bid responses pending	13,649	27,183	1,508	99,253	141,593	16
Privatisations	23,353	4,595	10,114	3,022	41,084	5
Under IP completion	7,508	1,386	2,871	2,040	13,805	2
. Under Bidding	15,845	3,209	7,243	982	27,279	3
Total	107,540	64,730	123,016	566,379	861,665	100
% of total	12	. 8	14	66	100	

contracts might be financed 80:20 debt to equity, but lenders to merchant plants want to see the operator commit more capital. Bankers say this means a developer may have to contribute up to 40 per cent of the capi-

One leading-edge project -a £100m 230WMW gas fired combined cycle station - is being built by AES, the big US generator, at Barry in Wales, IBJ, the big Japanese bank, is leading efforts to finance the project. While AES remains confident, it admits that some banks have not wanted to partici-

"It's going to take the banks time." savs Mr Salter, an official

2.879

7,419

7,520

with AES in London. "But we are battling against entrenched views." He notes that some banks want a totally riskless project. "When someone comes in and moves the market away they don't like it," he says.

Mr Eddie Altenhoven, vice-president with JP Morgan's energy team in London, agrees. "The competitive pressures are such that banks will have to get comfortable with riskier pro-

This is because the power market is changing, he says. "The energy providers are getting involved in generation. We are seeing tolling plants being built where the risk is borne by the fuel pro-

vider. Energy companies will

Total demand

80.571

30.174

4.656

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19 19

3429

2 277 290

tell you they are comfortable

with that risk." he says. boards in Poland and it may prove to be the model for financings in the economically healthier parts of the former Soviet Union's empire. Enron, the US energy company, is asking for financial proposals from

Another ground-breaking deal is on the drawing

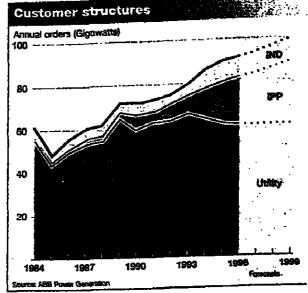
international banks to finance a 180MW gas fired combined heat power plant. The gas feed stock for the plant comes from Gazprom, the giant Russian gas producer, and Enron is seeking

17-year finance on the basis of a 20-year PPA - and may "For the correctly structured project, such loans are not too wide of the mark,' says a banker bidding for Enron's business. "But there are issues with the Polish

deal such as who knows

where Russia will be in 15 Political uncertainty does the world of independent power projects. In the Indian sub-continent, recent developments have raise questions about the way in which the governments of Pakistan and India are approaching

Recently an official of the Pakistan government questioned the PPA that the developers of the Hub power



station had negotiated with a previous government. The issue blew over, but it left some bankers asking ques-

Mr Altenhoven of Morgan asks: "Are these tariffs being put in place politically sustainable over time? Electricity in particular is seen to be a useful way to buy votes. It is a political football."

Similarly, in India, the outlook for the sector is being questioned, especially the

status of the government's so-called "fast track" projects, (see report, page 2).

Mr Harry Philp, vice-president of Chase Manhattan's global power and environmental group, says there is an increasing trend in India for large industrial groups to build their own site-specific generation.

'A verv dynamic is developing," he says. The best receivables are contracting dramatic-

LATIN AMERICA • by Frank Gray

## Regional dash for gas

The 1,800-mile Bolivia-Brazil gas pipeline, costing \$1.8bn, will be ready next year

The exploitation of Latin America's gas reserves, and the ability to pipe it long distances, is firing up investor enthusiasm for independent power projects in the region.

The emergence of Brazil as a customer for piped gas means that its overwhelming dependence on hydroelectric power - 90 per cent of all power in Brazil comes from hydro plants - will yield slightly as much new plant coming on line will be thermal powered, partly by coal but mainly by gas.

In Mexico, the second most populous country after Bra- countries have already zil in Latin America (total regional population: 450m), the hiving off of the gas sector from the monopolistic tia gas project in Peru, led embrace of Petroleos de Mexico (Pemex) has also created an incentive for new gas-fired power station construction by the private sec-

In recent years, the biggest developments have been the GasAndes gas pipeline scheme, which will deliver gas from Argentina to Chile. followed by other schemes in which Brazilian gas will be piped to Brazil via Uruguay in the south and directly by a separate route in northern

Long route

The biggest scheme of all is the Bolivia-Brazil gas pipeline project, a 1,800-mile (3,000 km) undertaking to cost \$1.8bn. The project will lift gas from the Bolivian interior near Rio Grande and pipe it north of Paraguay into south-western Brazil, across towards the coast where it will turn south, with a spur off to Sao Paulo and Rio de Janeiro and Belo Horizonte, with the main line running to the far south port city of Porto Alegre.

The project has many shareholders, including Petrobras of Brazil, British Gas, Euron Development of the US, BHP Petroleum of Australia and Tenneco of the US. The pipeline will be finEnron officials.

the sector.

According to figures released at a recent London conference by the Centre for Global Energy Studies. Latin America's installed capacity should rise to 250,000 MW by 2010 from 140,000 MW in

Brazil's share is about onethird. Significantly, natural gas's share will rise to 17 per cent from 11 per cent at present while the role of hydropower will ease to 61 per cent from 67 per cent. The share of oil will also ease from 17 per cent to 15 per cent in the 15-year period, while that of coal will rise from just 3 per cent to 5 per

While gas-fired generators are being solicited or signed up for the trans-Andes and Bolivia-Brazil pipeline, other recorded some unusual

One of these is the Aguayby a six-company consortium beaded by Maple Gas Corp. of Texas.

The deal, signed up last South America's first integrated natural gas and power project, and is a \$250m project to develop gas reserves in central Peru for electricity and hydrocarbon supplies to end-users. Chase Manhattan was lead financier for the project and helped raise \$150m in equity funding and \$100m in limited

recourse debt. The project calls for the

development of the Aguaytia gas field in central Peru and the construction and operation of a 155 MW gas-fired power station and gas-related facilities, as well as construction of a 430km

the power to the coast. The power station will be located at the well site and the power will be delivered over the Andes via power

transmission line to carry

lines to substations north of It will sell electricity into the Peru spot market; as such, it is described as a 'merchant' plant, as opposed to the more traditional build. operate, transfer scheme, in which the end-user of the power is a specific customer

paying an agreed tariff over

Confidence

20 or so years.

"Peru has no reserve capacity," says Mr Rex Canon, executive vice-president, Maple Gas. "We will be selling power at spot market prices, but we are confident about the deal because of the towards the end of 1998. autumn, is described as country's tremendous need for power and our own record as a low-cost sup-

> Proponents of gas-fired power generation are encouraged by the signing up - after long delay - of the Samalayuca II .combined cycle gas-fired plant in northern Mexico.

> The \$647m deal is Mexico's first large privately-financed power project following legal

700 MW scheme initially will be fuelled by natural gas from Texas.

Mexico's Federal Electricity Commission (CFE), the state monopoly that operates the national grid. initially granted a concession to establish and operate the plant in 1992 to a consortium of companies including General Electric, Bechtel Enterprises, El Paso Energy Corp. and Empresas ICA of Mexico, but the initial deal stalled because of Mexico's foreign exchange crisis in 1994. Under the deal. CFE will acquire ownership of the plant 20 years after operations begin. The plant is being held in trust for the sponsoring consortium by he Banco Nacional de

Of all Latin America's leading countries. Mexico has been the most reluctant to yield to the concept of foreign ownership, hence the need to set up a trust. Construction is now under way and the plant will go on line

The sponsors are providing \$132m in equity finance ing, with GE Capital responsible for 40 per cent. El Paso Energy, Empresas ICA, and Intergen, a Bechtel, Pacific Gas & Electric venture, each having 20 per cent.

Financing of \$515m is coming from such sources as Citibank, UBS, ABN Amro, Dresdner and the Inter-American Development



Tucurui hydro-electric project on the Tocantins River in the Amazon Resi

PROFILE: SIEMENS GROUP OF GERMANY • by Stefan Wagstyl

## A strong faith in technology

It is not every electrical founder, Werner Siemens, has sufficient faith in technology in this day and age to mark its 150th anniversary with a celebration of

But earlier this month. exactly that. The group invited customers, suppliers and other guests to a celebratory conference marking 150 years of Siemens and 40 years of its nuclear power

Mr Heinrich von Pierer, the president and chief executive, told his audience that the only serious alternative to fossil fuels as an energy source was nuclear power. Apart from hydro-electric power, nuclear power alone is in a position to provide enormous amounts of electricity with minimal environmental impact and at competitive cost."

This faith in technology lies at the heart of Stemens. The company's 19th century day."

engineering company that built Siemens around harnessing electrical energy. The group lost much of its assets in two world wars but bad the self-confidence to recover after 1945. Unlike AEG and some other Ger-Siemens of Germany did man rivals, Siemens has emerged from increasingly intense global competition as one of the world's leading electrical companies.

KWU, Siemens' power includes nuclear engineering, accounted for about 11 per cent of the group's total turnover of DM88.8bn in the year to last September.

In the 1990s, KWU has faced the same competitive pressures as competitors and cut cost, reducing the payroll by 6,000 to 19,500. Mr Adolf Huttl, the KWU president, says: "German labour costs are is still high because of the social costs.

orders now accounting for about 70 per cent of the total. It has developed components supplies overseas notably in eastern Europe and east Asia. An engineering centre in Kuala Lumpur, established in 1994, co-ordinates east Asian project development. But KWU, like Siemens as a whole, is less generation business which geographically diversified in manufacturing than ABB. its Swiss-Swedish competitor, which has made a virtue out of decentralisation. Mr

become increasingly inter-

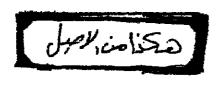
quality is not easy with global sourcing." KWU has this year taken a modest step towards further geographical diversification with the £30m acquisition in the UK of Parsons Power Engineering Systems,

Hüttl says: "Maintaining

KWU's business has ther because wage costs there are lower than in Gernational, with non-German many". Parsons, which already makes components for Siemens, will not be "an overflow factory," adds Mr Huttl. "It will be a real split in production to optimise

But Parsons is too small to contribute much to making KWU a more international company. That would either require many more modest steps or a substantial acquisition, perhaps in the US.

Some industry analysts says that Slemens could one day bid for Westinghouse Electric's power generation business and acquire a big north American generation equipment manufacturer at a stroke. But if Siemens has such a plan, it is not revealing it. Nor has Westinghouse, which is in the throes a steam turbine manufac- of a demerger of its broad-Reducing costs is a hard job. turer. Mr Huttl says the casting and industrial busi-You have to do it day by acquisition "will help us nesses, put the power reduce production costs fur- operations up for sale.



US MARKET . by Bruce Clark

## Deregulation debate rages on Capitol Hill

All utilities are being forced to accept the advent of free competition for retail business

The stockholders America's old-style utilities, whose assets exceed \$500bn and account for more than one quarter of the world's power generation capacity,

have a recurring nightmare. Under the most radical among a plethora of proposals currently on offer for der egulating the US electricity industry, they could find themselves barred from recovering some \$135bn in past investments, especially in nuclear energy, that by free competition. They might then be forced, either by law or financial necessity, to auction off some generation assets into a rapidly falling market - exacerbating the capacity glut which already hangs over a sector

Already, regulators in California and Massachusetts are ordering utilities to get rid of some of their assets. But in practice, the fate of the established utilities will probably not confirm their worst fears. Whatever the result of the debate over the already buoyant rapid pace, scope and terms of raging on Capitol Hill, the interests of the traditional utilities, which were always considered a safe bet for conservative investors, are

unlikely to be ignored Yet even a compromise will have far-reaching effects on US electricity generation. One intermediate solution was suggested recently by of LG&E Energy which is among the minority of power companies that supports

rapid deregulation.

He said he would soften political price for free competition. But under his proposal, utilities would still be obliged to auction off their uneconomic assets to the highest bidder by January 2001. All utilities, including those who have grown up under close and heavily regulated relationships with state governments, are being forced to accept the advent of free competition for retail business in some form – and in the short-term, combinedcycle gas turbines will be the main beneficiary.

Mr Thomas Lenard, an energy economist with the Progress and Freedom Foundation, believes the day could come soon when small to their own miniature gasutility-supplied power

waste heat boilers

North American markets

With gas generators able to turn a profit at 3.5 cents per kilowatt hour, compared with retail prices ranging from 11 cents in New York state to about 4 cents in Idaho, Mr Lenard believes the gas pipeline network has become a real competitor of the power transmission grid, hitherto seen as a natural

But both sides of the US electricity debate - pitting supporters of fast-track reform against advocates of caution - suggest there is some reason to expect a tightening in the electricity generation market in the medium term.

Those who believe in rapid change have argued that it will stimulate the country's growth - potentially adding GDP in each of the next 10 years, according to a widely quoted, but controversial, study by the Citizens for a Sound Economy Foundation.

viewpoints

Those who argue for a more cautious approach, letting individual states rather than Washington set the pace believe there is a serious danger of power shortages, especially affecting rural consumers, as competi-

tion gathers pace. The camp that wants early, wide-ranging deregulation includes a new breed of independent power marketers - and to an increasing extent power producers - who have are showing their faith in the future by buying up old plant and building new capacity.

"The wholesale market, selling power to utilities rather than end-users, is already almost half the size of the retail market and it is still growing fast," says Mr Robert Smock, publisher of Power Engineering maga-

Calpine, a company based in San Jose, California, is the most active in a lengthening list of electricity "merchants" that are ordering turbine generator whenever extra generating capacity whose output they expect to

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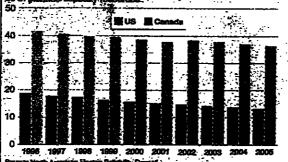
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sell on the free market without long-term contracts.

A 480 MW unit in northern California and a 240 MW facility in Pasadena, Texas, both gas-fired, have been ordered by Calpine in recent months as part of a plan to build up 10 merchant plants, with total capacity of 4300 MW, by the year 2003, supplying California, Texas and

While gas-fired units are generating the greatest excitement among electricity producers at the moment. they will certainly not account for all the new capacity that is expected to come on stream early in the next century.

A long-range forecast by the Energy Department predicts that the US will need 1,063 new power plants totalling 319 GW by 2015 - with power deregulation that is almost \$200bn a year to the 51 per cent generated from industry, Mr Shinji Sato, coal and 28 per cent from

> The same forecast reckons that between now and 2015 utilities will spend \$70bn on refurbishing utilities - 770 coal units, 172 gas units and 74 oil-fired ones. Much of government study of Eurothis work will be done by pean power markets which new owners as plants change hands in a hectic round of mergers and divestitures related to the onset of

But with an order rate of per cent cheaper. only 5GW year, it is easy to see why Cassandras are warning of a power shortages in some regions. At a recent conference organised by Cambridge Energy Research Associates, several speakers predicted that in a deregulated environment, it would become clear that the coal industry, which accounts for 56 per cent of US power production, has

The opening up of the national grid could make it easier to generate power along the inter-state wires, rather than transport it by rail to distant utilities.

significant under-utilised

Even the hard-pressed nuclear industry, which now accounts for 22 per cent of US electricity output against 9 per cent for gas and 11 per cent for hydro-electric power, could have some pleasant surprises.

"Deregulation will have the most varied effects," says Mr Jim Pierobon, of the Washington-based consultancy Potomac Communications Group "A struggling nuclear power station could find itself competitive once its costs have been recovered, while a well-run nuclear facility could be in trouble if it happens to be near a coal region."

FT ENERGY SURVEYS Forthcoming energy-related

surveys will include: World Nuclear industries, to be published on November 13, 1997. □ Energy Efficiency,

November 27. □ US Bectricity, December 9. ☐ European Electricity, February 19, 1998. For details, contact Bill Castle at the Financial Times in

London on +44 (0)171 873

JAPAN • by Gwen Robinson in Tokyo

The most significant developments Japan's power-generation industry in the past year stem from the government's recent push for deregulation, amid falling demand for new equipment Growing pressure on leading electricity utilities to cut prices and streamline their operations has combined with mounting criticism of the government's ambitious nuclear power-generation programme, following a ing nuclear power-generastring of nuclear-plant acci-

dents in the last few years. Japan currently derives nearly a third of its entire power requirements from about 51 commercial nuclear plants. The government planned to increase the proportion to more than 40 per cent by 2010, under a plan to steadily increase the number of commercial reactors. But public opposition to nuclear facilities has forced power utilities to postpone and even cancel some plans for new plants. Most recently, Kyushu Electric Power announced in early March the cancellation of plans to build a nuclear plant in Mivazaki, west Japan, due to strong local protests.

The cancellations and delays have hit the leading power-equipment suppliers, Toshiba, Mitsubishi Heavy Industries and Hitachi, who are now looking abroad to boost business, particularly in rapidly growing regional

#### Revision

Competition between power-equipment suppliers for Japan's shrinking but still lucrative market escalated in 1996, with the entry of independent power producers to the wholesale electricity business. Their entry was triggered by revision of the electric power utility industry law in 1995, which paved the way for a new era of competition by enabling IPPs for the first time to generate and supply electricity to the "wholesale market," meaning the 10 regional power utilities rather than end-users, mainly through competitive bidding.

The revision also accompanied growing interest in alternative forms of power generation, including windpower and solar energy, to supplement the main sources of nuclear, gas, oil, coal and hydro power.

companies intensified early this year when the minister of international trade and threatened to break up leading utilities into separate they cut prices by at least a

The threat was based on a found that industrial electricity in most European markets is 40 to 60 per cent cheaper than in Japan, while residential prices are 10 to 50

Japan's leading power utility, Tokyo Electric Power Company (Tepco) took the first step in May by announcing it would lower basic charges next year. That was followed by Kyushu Electric Power, which shortly after announced a similar move Other utilities are expected to follow suit, although the extent of the price cuts are

#### **Interest rates**

Other pressures on electric power utilities in the past year have included higher interest rates, rising oil abnormally mild temperatures in summer and winter. which sharply cut power cost-consciousness has significantly slowed the pace of replacing and upgrading plant - another blow for leading equipment suppliers.

'Capital expenditure has always been a function of peak demand, which is growing at an annual 2 or 2.5 per cent but which can also be quite volatile," says Mr Paul Smith at HSBC James Capel in Tokyo.

"At the same time, you have growing pricing pressure and difficulties establishing new plants, particularly nuclear plants. The utilities will cut their prices by 1998, which will further affect their traditional suppliers. Sourcing up to now has been fairly lax, with little competitive bldding and little overseas sourcing of parts. But that will certainly increase."

Traditional market leaders in supply of power-generation equipment and services are already feeling the squeeze. The three suppliers to the hitherto lucrative market for nuclear reactors. Toshiba, Hitachi and Mitsubishi Heavy Industries, have 4129, fax +44 (0)171 873 3062 had some success in generat-

## Squeeze on suppliers

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While electricity companies face pricing pressures, project cancellations and delays have hit the leading power-equipment makers

Among regional countries offering contracts to the leading Japanese power equipment suppliers are Taiwan and China, which are both interested in boosttion facilities.

Recent overseas contracts, however, have offered prices of little more than one-third of those prevailing in the Japanese market. But Japanese suppliers have the edge in less-developed countries with generous export finance

The profit, according to analysts, comes from lucrative after-sales service and maintenance arrangements. Basically, we are having to fice short-term gains to

cial at one leading power

still tiny in terms of their contracts, IPPs have revolutionised pricing and supply of equipment and materials and transmission, and their market share is set to grow

market leaders faced mounting pressure to lower their

equipment supplier. The future for independent power producers, mean-about \$4.8bn in 1996, and can while, looks bright. While be expected to grow by at proportion of total supply over the next few years, both power generation

steadily Since early last year, average prices offered by successful bidders have been nearly one-third lower than those commanded by the cosy oligopoly of leading Japanese materials and equipment suppliers. For the first time, these traditional

make profits," says an offi- prices in an increasingly competitive environment. The IPP equipment market

in Japan was valued at least 4 per cent annually according to a US government report on Japan's power generation equipment

The report noted that while the newly created marcoportunities for US manufacturers of equipment for several years to come." So far, the biggest foreign IPP to announce plans to enter Japan is Enron, the world's leading natural-gas developer. The Texas-based company plans to generate

power through a low-cost

method of compressing and burning industrial waste and

bome refuse. Enron set up a Japanese subsidiary this year to prepare for bidding at auctions held by Japanese utilities including Tokyo Electric Power Company (Tepco) in 1999. If successful, the US company will invest more

than Y80bn to build plants in seven areas around Japan. In the arena of equipment ket is very competitive, it supplies, General Electric should provide "significant won an \$800m order from bines. GE is now targeting Japan as a growth opportunity. Japanese companies. including Kawasaki Heavy Industries, Mitsui Engineering and Shipbuilding and Hitachi Zosen are also mov-

INNOVATION: GNB Battery Technologies • by Gwen Robinson

## Big demand for back-up power

One of the outstanding success stories in Japan's industry is also one of the most unlikely. It is about a 100-per-cent foreign-owned company, using 100-per-cen imported products to capture nearly half the market share in a relatively neglected field of power supply in Japan: back-up

Until January 1995, when an earthquake devastated the port city of Kobe, little attention was paid to the efficacy of the main source of emergency power supplies – large industrial batteries. The market was dominated by a few Japanese companies supplying mainly traditional acid batteries But one newcomer, GNB Battery Technologies, was trying to break into the market with new, sealed valve-regulated lead acid batteries. But the customers for back-up batteries, including power

utilities and telecom carriers, was that the traditionally sturdy power sources would survive any

earthonake. The Kobe quake disproved that, destroying some of the thousands of industrial hatteries intended to supply emergency power for the region's phone system. More than 250,000 phone lines were cut for almost 24 hours as a result. Ensuing investigations revealed that Japanese-made acid batteries suffered the most damage, while every one of **GNB's sealed batteries** 

In the aftermath, NTT. Japan's domestic teleco giant, decided to replace its old-fashioned acid batteries with GNB's new products, imported direct from the US and Britain. The company had already shown considerable confidence in GNB batteries, installing them as the power back-up system in the Emperor's palace in central Tokyo, as

survived the quake.

well as the primary back-up for telecoms in the city's leading financial centre,

The company, which is owned by Australia's Pacifie-Dunlop but neadquartered in Atlanta, Georgia, has since surged ahead in Japan's market. According to Mr Shoichiro Oku, who heads GNB Battery in Japan, sales grew from almost zero in 1990, the company's first year of operation in Japan, to \$20m in the current business year to June. For the next term, it expects 10 per cent sales growth and even more rapid expansion in the next

Demand for back-up emergency power supplies is soaring amid growing reliance on sophisticated computer networks, Mr Oku says. Among GNB's leading clients are two of Japan's largest rail companies. West Japan Railways and Central Tokai Rallways, which depend on GNB's batteries to back-up their huge

computer networks running the "shinkansen" builet trains. Others include the main carriers in Japan's recently-deregulated telecoms market, as well as the leading utilities such as Tokyo Electric Power and

Kansai Electric Power. However, competition is intensifying as leading including Japan Storage Battery, the country's largest maker of industrial and automotive batteries. develop new-generation sealed lead-acid batteries Japan Storage last year began marketing a line of long-life sealed batteries with a 13-year duration.

But Mr Okn at GNB is confident that the company's foreign-made products will maintain their technological edge. "Basically, all businesses these days need stand-by and backup power. The competition is becoming very fierce, but GNB Battery Technologies is still the industry leader," he says.

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#### **6 POWER GENERATION EQUIPMENT**

## **Pressures will** force further consolidation

From page one:

aid-funded projects such as nuclear installations.

there is no shortage of projects, particularly in Asia. which is expected to account for half world equipment orders for the next 10 years. The economic recovery in gled to finance the project. Latin America is also generating growing interest in the industry.

Altogether, detailed proposals exist for plants to generate 1.000,000MW of electricity worth perhaps \$1,000bn to equipment suppliers. But, finance is much harder to secure - whether for stateowned or private schemes. GE estimates that it takes an average of seven years to on the Yangtze River, (see bring to fruition a private sector scheme in a developing country. As Mr Mark is due to decide in the next Axford, a senior executive of few weeks on the award of Stewart & Stevenson, a turn- first stage contracts - for 14 key developer of small power of the 26 generator units plants using GE turbines. says: "Deals are a dime a tually every leading equipdozen, but financeable deals

In India, for example, the bureaucratic delays to the eign capital and this year \$2.5bn scheme put forward awarded its first contract for by Enron, the US energy a foreign-owned power sta-

Annual orders (Gigawatts)

Regional market development

state, have cast a long cloud raising safety standards at of uncertainty. While Dhabol is now going ahead, other In the developing world, projects are snarled in red

> In Malaysia, Ekran, the company behind the controversial \$5bn Bakun hydroelectric scheme, has strug-While government backing means Bakun is almost certain to go ahead, the project highlights the difficulties of financing such a large venleast tures and shows why investors often prefer smaller schemes of up to \$500m.

However, China is pressing ahead with the world's largest power scheme - the state-financed \$30bn Three Gorges hydro-electric project report, page two).

The Chinese government which will be required. Virment supplier is among the bidders. Elsewhere, China is opening the industry to for-

group, for a gas-fired plant at Dhabol in Maharashtra

Worldwide service, retrofit and maintenance market (Gicawatts Orders 1985 88 91 94 97 2000 2003 2006 Sources: GE: ABB

**MARKET OUTLOOK** 

demand. Moreover, for

equipment suppliers. Chi-

nese orders often come at

the price of transferring key

technologies to Chinese part-

China is one of the few

sources of orders for nuclear

plants. GEC Alsthom has

built two and is now build-

ing two more in southern

China. But the global out-look for reactor construction

is grim. Only one order has

been placed in the past year

- with GE from Taiwan.

Companies rely on service

contracts to generate income

to keep together nuclear

The pressures to compete in these markets are chang-

ing the equipment industry.

Annual orders (Gigawatts)

Technology market development

engineering teams.

tion - the \$650m Laibin Cosy ties between utilities GEC Alsthom has continued plant in Guanzi province to and local suppliers are being be built and operated by a replaced by global competiconsortium including GEC tion. Costs are being cut to Alsthom. Nevertheless, even levels which would have Armin Meyer, head of ABB's in China, capacity addition seemed impossible 10 years ago. For example, Westingis falling behind growth in

#### **Trends**

Groups are looking far afield for sources of low-cost components. ABB has been particularly active in building a decentralised manufac- is creating opportunities for turing network, in contrast to rivals which remained more concentrated. But all scour the globe for outsourcing parts.

The consolidation which started in the late 1980s with the creation of ABB and of

ST for CC

with many smaller deals, including Rolls Royce's sale of Parsons to Siemens. Mr power generation business, says this consolidation will house is closing a factory in go further as smaller compa-Pensacola, Florida, ABB has nies lack the global reach cut jobs concentrating big and economies of scale of the turbine production at just big integrated groups. "The two factories - Birr in Switbig six are increasing their market share from 60 per cent towards 80 per cent." zerland for gas and Mannhelm in Germany for steam. Smaller companies, such

With market prospects flat and competition tough, producers must fight for orders. But opportunities in services are growing fast.

3,500 3,000

1.000

World turbine market (1990-95)

as Stewart & Stevenson, argue that there are impor-tant niches which big compapies do not fill. Also, the pursuit of outsourcing of components by large groups smaller suppliers. The trouble for component makers in developed countries, including boilermakers and other significant manufacturers is that low-cost parts' makers are increasingly to be found in the developing world. Moreover, many exec-

over-capacity will be solved only by further consolidation among big companies. Industry speculation centres on Westinghouse, which is splitting itself into two companies - one for broadcasting and the other for manufacturing, including power engineering. Westinghouse executives argue that demerger will create a tightly-focused manufacturing company, which is more committed than before to power engineering. But some

demerger could lead to dis-The trials of the 1990s have put unprecedented commercial, technological and financial demands on the industry. Virtually every company has responded to the challenge by improving their performance to record levels. But not all will be rewarded for their efforts. A emerge between two or three utives believe the industry's market leaders and the rest.

rival companies believe

gap will almost certainly Power saver this sequential combustion gas turbine from ABS raises net efficiency to nearly 58 per cent in combined cycle operations, with relatively low firing temperatures

SERVICING • by Stefan Wagstyl

## A crucial role in raising revenues

Cost-conscious power producers are shopping around for high-quality services

Power engineers once looked

its from supplying new plant, combined with growing demand for sophisticated after-sales service, is trans-

forming the industry. Servicing now accounts for up to 55 per cent of revenues at leading equipment suppliers and an even higher proportion of profits. For those losing money on new equipment supplies, service income alone is keeping the business in the black.

Equipment makers are therefore investing heavily in developing service products, adapting them for the needs of utilities, and, increasingly independent

power producers. For example, General Electric has this year doubled its investment in services to \$250m. As Mr Bob Nardelli. president and chief executive officer of GE Power Systems, told an industry conference this month: "Many think of service as product support or installation assistance or on-call maintenance or repair. Today, service has taken on new meaning as customers look to suppliers for innovative offerings and alternative methods for accomplishing missions they have histori-

cally done themselves." At GE, service income accounted for more than half the power generation business's turnover of \$7.26bn. GE has a big competitive advantage in having the largest installed base of turbines of any producer. But others are moving in the same direction. Westinghouse Electric, with the second largest turbine fleet, also generated about 50 per cent of its \$2.02bn turnover in power generation from services.

ABB says the share of service in its power generation turnover, could rise from 25-30 per cent of \$9.69bn last year, to 40 per cent by the year 2000. "As the population of installed power stations gets older, this business will grow," says Mr Armin Meyer, director of ABB's power generation division.

GEC Alsthom has similar hopes. It plans to raise service turnover from 30 per cent of its \$5.1bn total power generation revenue in the year to March 1995 to 50 per cent or 60 per cent of the total. "We hope to double service revenues," says Mr Michael Barrett, commercial director for power genera- shopping around for high- energy efficiency rate of 33

At Siemens, boosting service income is a key reason behind the planned £30m acquisition of Parsons Power Engineering System, the British-based steam generation business of Rolls Royce. Siemens wants access to Pardown on servicing as the sons customers throughout because they find it more cent achieved in state-of-the-unglamorous end of the the world and to use Parsons economical to outsource art gas turbines in combined power generation equipment as a base for servicing its JK clients. Mr Adolf The struggle to make prof- Hüttl, president of KWU. Siemens' power generation division, says: "The role of ser-

> vices is growing and growing. This growth is being driven mainly by electricity generators demanding higher levels of service, in response to commercial pres-

sures and technological The main impetus comes from the liberalisation of the electricity industry and the development of independent power producers. This has gone furthest in the UK, but is beginning to develop in

the US, the world's largest electricity market. Before deregulation, stateowned utilities typically bought high-specification power equipment with a service life of 30 years or more and employed teams of in-house engineers to keep it

original equipment supplier. In today's increasingly-liberalised markets, new independent power producers and old-established utilities alike are becoming more

running using parts from the

quality services. They are per cent, meaning that only also placing a bigger emphasis than before on having the fuel is converted into their plants running with as little interruption as possible, as stoppages mean lost

revenues. Many generators have also about 40 per cent. This is cut in-house service teams, still well short of the 58 per such services.

which often have little prior experience of generation and are sometimes best regarded as financial investors, are relying more on plant suppli-

ers than the traditional utili-New computer networks monitor distant plants

ties. Plant suppliers are therefore having to develop long-term ties with operators, supplying technical expertise, especially in developing countries with little

indigenous know-how. With funds for new projects at a premium, there is increasing need for raising the efficiency of existing plants by improved servicing. The world's population of power stations is ageing. particularly in north America and western Europe, where there is little incentive to add new generating

capacity. GE estimates that the

Equipment suppliers are using computers to assemble performance information from different sites to build libraries of data which can be shared with clients. For example, the buyer of a turbine in Indonesia will be able to draw upon the experience of running similar machines in Germany or Japan or anywhere else. Equipment suppliers are using long-distance monitoring to develop remote-con-

trol servicing. Specialist

engineers in service centres

use modern telecom links to

gather data and transmit

33 per cent of the energy in

electricity or by-product

Modernisation can raise

this by up to quarter, or to

cycle operations. But mod-

tion of the cost of replace-

The rapid spread of com-

puter-based technologies has

made possible the develop-

ment of increasingly sophis-

ticated servicing packages.

For example, service engi-

neers are starting to con-

stantly monitor equipment

in action, to develop a con-

tinuous picture of a plant's

technical strengths and

weaknesses. Instead of

waiting for a break-down.

companies can carry out pre-

ventative work in advance.

They can also time routine

maintenance more accu-

rately, varying the intervals

for different plants.

ion comes

ment.

steam for heating systems.

possible solutions to problems without ever visiting the power station. Power plant suppliers first started to capitalise on these technological developments in the late 1980s. But they have begun to develop rapidly only in the last two years. The US leads the way. Even though deregulation has yet to take full effect, the uncertainty it produces is persuading generating companies to postone big capital investments. So they are spending more on

extracting maximum reve-

nues from existing plant. Small and large service companies reap the rewards of meeting these needs. However, the big companies have the upper-hand in the long-term high-technology servicing agreements, where the highest margins are to be found. Also, these big companies are willing to share the risks - signing deals under which some or all of their payment will depend on the actual performance of plants they are maintaining. Mr Meyer of ABB says: "We have strategic partnerships with customers where we share hene

fits and risks."

cost-conscious. So they are verage US plant runs at an

Pumpe Power Plant in Germany, Mr Adolf Hütti, president of KWU,

# what is the new shape of power?

Middle East

- a Africa

future shape of power is clear. is efficient and independent. It is also clean and economical. Most of all, it is reliable and simple business, you can now get total service from a single source cities you. We are the partner who can deliver the power to shape your

WĀRTSILĀ NSD CORPORATION IN BRIEF

in an intelligent and advanced way.

- Two leading technology brands: Wärtsää and Sulzer
- Complete turn-key power plants from 1 to 250 MW
   Complete marine propulsion systems . High-, medium- and low-speed angine technology
- Streamlined and renewed diesel and gas prime mo
   Complete output range from 520 kW to 68,000 kW
- Own sales and service network and licensees in 47 countries with strong presence in East and South-East Asia
- 8,000 employees generating 2.3 Billion USC sales in 1997
   Wartsilli NSD Corporation is a Metra company





## MANAGEMENT CONSULTANCY

On many counts, the industry's faith in continued growth might seem well-founded. However, there is an alternative opinion which sounds a note of caution. Tony Jackson reports

## **Growth and** revenues seem to be unstoppable

s an industry, man- only ones working in it. The firms are still seeing their revenues rise by at least 20 per cent a year, and few near future. Indeed, their one headache would be a source of envy in most other industries: the difficulty of obtaining enough good recruits to supply demand.

The sources of growth can be taken under three headings. First, corporations are around. handing over specific functions to consultants, lock, stock and barrel: their IT departments, their accounting, even some parts of their personnel management.

role in

enues

Second, many corporations are shifting their attention from efficiency and restructuring to growing their businesses again. As they do so, they find themselves out of practice in certain essential skills: strategy, product innovation or managing change throughout the

Third, the demand for consultancy is ever more global. On one hand, corporations in the emerging economies of east Asia or eastern Europe want to instruct themselves in western meth-

More important, western corporations are under immense pressure to globalise, and find that in some respects they lack the knowedge or manpower to do it. How dependable is this

That may vary with the individual parts. The outsourcing wave is part of a larger phenomenon: the continuous structural experiments being undertaken by corporations, largely under the influence of new technology.

Those experiments will certainly continue, in unpredictable ways. Consultants have been quick to grab some of the functions which big companies are shedding. As the landscape changes further, they may not be the the same high-quality resource

A agement consultancy all-important area of infor-seems to have mation technology, for acquired an unstoppable example, is shared with commomentum. Most of the big panies whose background is not in traditional consultancy at all, such as EDS.

Nor is much of the work expect this to change in the strictly consultancy, however much some consultants benefit from it. If Andersen Consulting takes on the entire IT staff and equipment of a large corporation. they are no more its adviser than the haulage contractor which trucks its goods

> The shift in corporate focus towards revenue growth, on the other hand, is the traditional stuff of consultancy. Mr John Lindquist London-based senior vice-president with the Bos-

out that it has a cyclical ele-Corporations focus on cost on the downside of the economic cycle, and on revenue on the upside.

ton Consulting Group, points

But as Mr Lindquist also remarks, there is more to it. After years of cutting costs and increasing productivity. companies find that manufacturing is simply a less important part of their business. They are therefore thinking more about distribution and marketing; and the resulting focus on the



customer leads naturally to a growth mentality.

Whether companies have a growth capability is another matter. In some cases, they no longer have people who spare the time to come up with or pursue ideas. In others, they find they have lost - or never had - a culture conducive to innovation, and need the help of consultants to instil it. Not that this excludes

cost-cutting as a source of business. Mr John Kelly, UK head of consulting at Ernst & Young, says that in the US, where the rhetorical shift to revenue growth is most marked, the reality is that most corporations are still working on cost control

In Europe, similarly, rhetoric suggests that companies painful phase of restructuring. But the reality, Mr Kelly "The aim is to have a balanced portfolio of change, which will have cost reduction in it, but also revenue enhancement. So you may be moving to shared serductivity."

such that if the idea falls, its

Simparly, innovation may

الإدار المستعلم الماع المارين

sional handling.

Mr John Lindquist says. there has been a distinct evolution in recent years. Around 1989, with the fall of life is different from eight or communism, clients began nine years ago, when the

to commission multi-regional studies instead of the old multi-country studies.

By the early 1990s, the emphasis had shifted to searching for specific markets and partners in the new regions, such as China or eastern Europe. The bigger companies then moved to the local operational level, with more in-depth studies of distribution chains and acquisitions.

As a result, Mr Lindquist made serious moves in those regions, involving serious money. In some cases, of course, those moves have started to go wrong. So the consultants are being called in again at the top level to help sort things out. On all these counts, the

industry's faith in continued have yet to go through the growth might seem well-founded. The counter-Alan Reid, president of the UK's Management Consultancies Association and international chairman of consulting at KPMG.

One must distinguish, he vices, but you will also be says, between activity and working on new product growth. The millennium development and R & D pro- computer time-bomb, for example, is a highly active As for globalisation work, market for consultants. It is hardly a long-term one. "It's very important," he



industry was hit by recession after a period of very rapid growth. It's a bit like

boom times in the property market when a lot of young people come in with no experience of recession. "Any fool can grow a consultancy quite fast just now. But when the downturn comes, the cost of redundancy can eat up much of the gains you got from the

> Not that he denies there areas. In KPMG's case, a huge amount of business comes simply from helping install the operating systems produced by the German software house SAP. "That's the liveliest thing

says, "to work out whether

that ever happened to the local autonomy. If so, some consulting industry. It's a firms risk finding very large Having said all that, even very sophisticated system.

wide doing that in the past Extrapolate that, he says, and the demand for people with SAP skills is plainly enormous. "In consulting

very complicated to install,

and you need consultants to

do it. In our firm, we've gone

from 700 to 1,200 staff world-

terms, that will probably last long enough to be a generasays, many companies have are longer-term growth tion of products; say, seven Other products, such as shared services or outsourc-

ing, may turn out to be fads. or at best a swing of the management pendulum uation of time and motion between centralisation and

chunks of their business melting away.

And after all, as Mr Reid argues, most of the core services in consultancy do not change that much over the decades. They simply get called something else: and that, he argues, is the fault of the academics.

When Tom Peters has done all the lectures and sold all the books he can, he needs to find another topic. But a lot of the basic features of the business don't change.

"Business process re-engineering, say, is just a continstudies, upgraded and made

relevant for the particular

Mr Reid does not see the consulting industry reverting to the size of five years The fundamental behind

quality growth, as opposed to an active market, is that companies can't afford to carry a lot of skills any more, and those with the skills won't get enough variety or exposure to best prac-But he returns to the basic

problem posed by the industry's current growth. "You can't keep growing at these rates", he says, "and still provide the same high-quality resource."



## Time for some new ideas

Innovation may be a hot topic today but it may not always remain so

Ask a consultant on either side of the Atlantic what the hot topics are in the profession today, and before long innovation will come up. It will sometimes be bracketed with strategy, sometimes

with change management.

The general thesis is the same: that after a decade of concentrating on efficiency. companies now find it hard to come up with new ideas to expand their business. Consultants differ on why

this should be so. Some point out that plenty of companies never have been good at innovation, while a few - the US manufacturer 3M being the most popular example - have always excelled at it.

Others stress the effects of downsizing. In some corporations, there is simply no and pursue ideas. The contrast is again drawn with 3M, where employees are instructed to devote 15 per cent of their time to think- pany has done before. ing up new products or ser-

gineering. The whole thrust of re-engineering is for comward-looking, relying on evidence and the measurement

this approach over the past reach the market. decade, it is psychologically

difficult to switch to contemplating the future..

There is some irony here. Process engineering was not invented by consul-tants - like most management theories, it came out of academia, in this case the Massachusetts Institute of Technology (MIT) - but it has provided a good living over the years for consulting firms such as CSC Index. To that extent, the con-

sulting profession is now offering to correct the defects in management thinking which it helped to

As applied by consultants today, innovation has at least two distinct meanings. For some, it is a matter of top-down business strategy. Which new businesses should your company be in? If you are a retailer, should you be in financial services?
If you are a utility, should you be in telecoms?

For others, the main thrust is in processes. In any corporation, runs the argument, there are natural barspare capacity to generate riers to innovation. Senior executive are naturally uncomfortable with activities which look and feel different from what the com-

workers, whose job is to Most consultants agree on focus on efficiency, are reluctant to help with products and processes which are novel, and thus initially disa third reason: process re-en- rejuctant to help with prodpanies to do better what ruptive. The problem, it is ent in Silicon Valley. At a Now this is changing they do already. It is back argued, rarely has to do with meeting to discuss a new again, commanies will once people coming up with ideas. It has to do with the natural tendency of corporations to For managers trained in kill them off before they

Thus, processes must be expertise. But the end of the time.

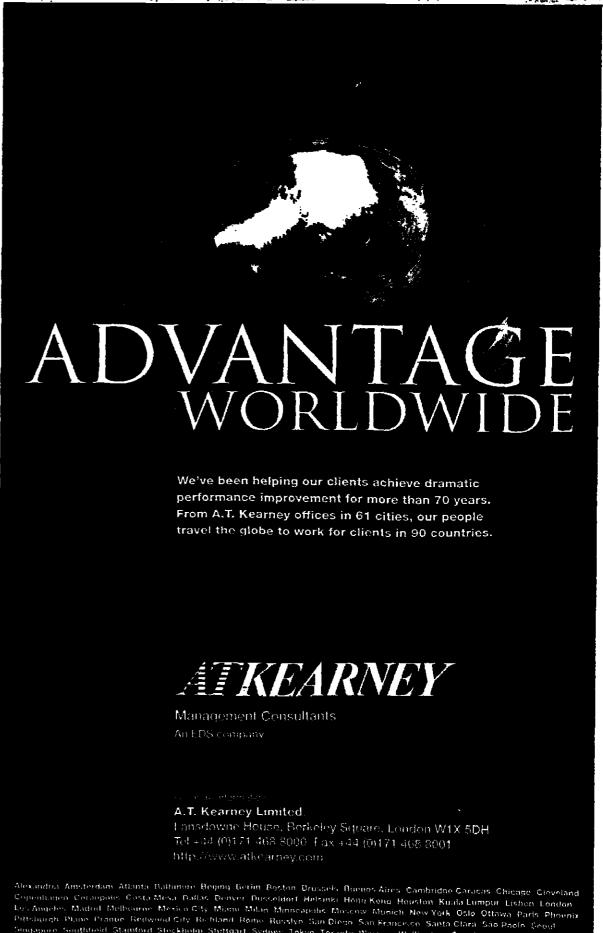
set up within the corporations had been thrashed out tion to gather and promote ideas. Senior managers must
be charged with helping utives left the room they were immediately back on ideas survive through the organisation. Teams must be friendly terms. set up across the company, But if innovation and its from research, manufacturing, sales and so forth, and

associated techniques are hot topics today for the contaught to get on with each sulting industry, will they other. And innovation, like any other business target, always remain so? Possibly not. There is nothing must be systematically mearemotely new about strate gic thinking or new product sured and rewarded. Processes apart, one of the development. Companies great attractions of innovaused to know all about them: tion for the consulting prothey have merely forgotten a fession is that it involves certain amount in recent coaching executives in changing attitudes.

The point about strategic Many managers, for example, are still prey to the 'notit was embraced all too invented here syndrome. enthusiastically a couple of Faced with a good idea from decades ago. Companies outside the corporation, hurled themselves into busitheir first, impulse will be to nesses they knew nothing explain why it could not about then had painfully to learn the lesson of focus. Today's strategic innovation work in their own company. Or they will be refuctant to umit to ignorance on how emphasises the taking of exactly a new idea will pan small incremental steps, out. Or the culture may be rather than ibig risky ones. Once that lesson has been learnt, companies can do it chammon is blamed or ridifor themselves.

Similarly, the development involve conflict and argu- of new products and services ment and the direct chal- was the lifeblood of compalenging of senior manage- nies in the faster-growing ment. While this may be economies of a generation Similarly, production necessary, it can also be ago. From the mid-1980s, damaging, and needs profes- they became more preoccupied with processes - that is,

project, he says, executives again have blearn for themfrom the company were selves how to innovate. Most remarkably blunt with each other accusing each other of lack of understanding or consultant in the mean-



CONSULTANTS AND THE IT REVOLUTION • by Dave Madden

## Pervasive fact of business life

Consultants have had to come to terms with the fact that IT is now essential

Management consulting. often the catalyst of business transformation, has gone through a revolution of its own in the past few years.

It is not so long ago that there were two sorts of consultants: "real" management consultants giving business strategy advice to chief executives, and other consultants, grubbing about in the operational and technological undergrowth, doing pro-

Today, that demarcation no longer stands. Informa-tion technology, in particular, has become such a pervasive fact of business life that most business strategies are dependent on it. And not surprisingly, technology competency is now a pre-requisite of even the most rarefied strategic consultancy.

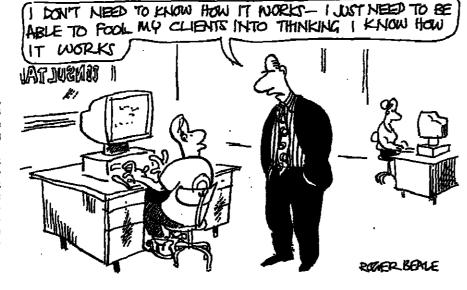
Mr Jan-Willem Broekhuysen, the new managing Now, history is repeating director of consultant A. T. Kearney in the UK, comments: "The idea that IT is lower-class work; that it is somehow less interesting, clearly underestimates the vast influence IT now has on our lives. So we've had to come to terms with the idea that to do strategic consulting without IT is a thing of

Significantly, A. T. Kearney is now part of the vast US systems group EDS, and Mr Broekhuysen says that, in part, his firm took its decision to join EDS because of IT's omnipresence.

"IT is present in everything we do - in such a pervasive manner that we could not be outside that world."

Mr Brian O'Rorke, executive director of the Management Consultancies Association, detects the same convergence of interest. "It is now extremely difficult to say where business strategy and IT consulting ends and the other begins," he says. This is reflected in the MCA's membership which now includes the likes of

can you do in



giant Computer Sciences Corporation (CSC).

"If you go back far enough, there was uproar in the profession when the chartered accountants came into consulting. People said they were not "proper" consultants. But they became the drivers of the industry. itself. The IBMs and EDSs have moved in and there is the same cry - that they're not proper consultants. But increasingly they are winning business against the traditional firms." he says.

One reason for this partial shift of power, says Mr O'Rorke, is simple economics. "Consulting is becoming a very expensive business. You need to invest heavily in R&D just to stay ahead of your clients, let alone your competitors."

That needs the sort of money that is more readily available in international companies than in partnerthere are more profound reasons for this convergence. too - to do with the nature of businesses and the technologies available to them.

Mr Hugh Morris, senior technology partner at Andersen Consulting, describes a this relationship of strategy and IT: from a time when business strategy and IT were deemed separate, through a stage where busi-EDS and the US services ness strategy began to drive implementing discrete func-

10 minutes?

• run 4.5 Kilometres

• swim 1800 metres

relocate and reboot

• cvcle 8 miles

your business

IT strategy and implementation, to a point today where business strategy and IT wide, fully integrated softenjoy a symbiotic relation-

A lot of IT was a solution in search of problem, he says, but now it is emerging as a catalyst of strategic vision. "Organisations really are asking: 'What will IT allow us to do?' In my view, there are only two sustainable forms of competitive advantage: capital and IT. Capital favours market incumbents, but IT favours new entrants

"You could wake up and decide to go into retail banking tomorrow and exploit the new technologies to bypass the existing infrastructures completely.

Everyone takes some form of holistic view now: the integration of strategy, technology, process and people in the performing business. But, Mr Morris argues, IT has a special place in the funded consultancies. But equation, because the risks and costs, the opportunities and constraints, associated with IT remain potentially far greater. And IT tends to be the "trigger; the spark, to doing things in very different ways".

Mr David Boyd, a partner three-stage progression in at KPMG Management Consulting, supports this analysis broadly. He runs KPMG's package software implementation group and observes that while it started out

tional packages, its custom-

"IT strategy and business strategy are now very closely coupled. There is a clear need to understand what IT can enable." Mr Boyd says. And this is becoming even more crucial as conventional business functions are replaced with new processes

"People are becoming responsible for overall processes. I have a client who's just appointed an 'end-toend' director of customer satisfaction," he says. That level of integration is greatly dependent on technology. What is more, the emerging technologies - the internet and other complex networks. for example - imply even more radical shifts in business processes - and offer new strategies.

"A lot of business processes we recognise today will remain, but the boundaries of who performs them will move - some will shift to other organisations, some to customers, some to suppliers," Mr Boyd says.

Mr Morris suggests that the world is moving rapidly to electronic commerce but has no exclusive ties. where technology is removing constraints of time, place and form." (Interestingly, a recent survey by KPMG sulting. reveals that the UK's top companies expect almost one in five of their sales to come

ou need to react fast in

when time is money, that's not just a

put you back on your feet. And,

question of keeping on your toes -

What will you face at work tomorrow?

How about a flood, fire or even a bomb?

What if overnight, a thief removes the

chips from your server? Would your

Any of these scenarios could - and do

strike businesses when least expected.

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failure of your business's mission critical

functions. How, for example, would you

send invoices when the system isn't just

Your insurance may cover expenses but it

won't keep your business up and running

with the minimum of disruption and-

unfortunately your customers will not

understand, if the worst does happen.

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it's a matter of survival.

MANAGING FOR SHAREHOLDER VALUE • by Tony Jackson

## Rank heresy to an older generation

The principle requires managers to accept that the stock market knows best

Although managing for shareholder value is hardly. swept through the UK to down through the operating continental Europe. The companies. Both aim to cremessage is the same every- ate a system of incentives where. The stock market is: for managers tied to their the final arbiter of value. success in value creation. What is good for the market is good for the corporation.

directly via the internet in To an older generation of five years' time - from none managers, this is rank heresy. Many in Europe – and Mr Brockhuysen describes some in the UK - would still this as a process of converargue that portfolio investors are badly informed and gence is the enabler. It proshort-term in outlook. If the vides for process convergence, which in turn will enable industrial concorporation is creating long-term value and investors do not understand the fact, so much the worse for So as Mr Laurence West, a

This is where the consultancy profession comes in. In some cases, boards of directors need help in grasping the principle of shareholder value in the first place. In almost every case thereafter. they need help in explaining it to the rest of the organisation and creating structures to deliver it.

Broadly speaking, consultants in this area can be divided into two classes. First come the specialists. with their own proprietary definition of what constitutes shareholder value. The best known of these is the New York-based firm of Stern Stewart, whose system of EVA (economic value added) re-jigs the company's accounts to establish whether the return on investment exceeds the true

Then come the general consultancies, such as Price Waterhouse or Ernst & Young, which begin with the more empirical market-based measure of total shareholder return (TSR). This is defined as the value delivered over a

and share price.

good deal of time sniping at price will rise accordingly. each other, in sometimes esoteric detail. From the client's perspective, though, they have much in common. a new concept, it is certainly. Both aim to extend the prina fashionable one. From its: ciple of shareholder value, as origins in the US, it has reflected in the share price,

> One firm, the Boston Consulting Group, finds itself in both camps. Its mainstream consultancy follows the TSR route. It also owns Holt, a Chicago-based exponent of cash flow return on investment (CFROI), which is in

principle close to EVA. According to Mr Neil Monnery of BSG, companies need both. From day to day, they have to work on the basis of return on assets or capital invested, on the assumption that stock market performance will follow.

Also, he argues, the corporation's TSR is a somewhat distant goal for the average line manager. He or she needs to be tied into it through specific processes such as planning, budgeting and incentive programmes.

Not everyone would accept this attempt at reconciliation. The trouble with the EVA approach, says Mr Jim Eales of Ernst & Young, is that it is ultimately based on the balance sheet, however modified.

It therefore omits assets which cannot be prudently recognised, such as intellectual capital, brands or other intangibles. Equally, it is not obliged to show tangible assets at their commercial value. Thus, it fails to capture the extent to which managers are securing an adequate return on the business entrusted to them.

The exponents of EVA would argue the converse. All that matters is the cash that shareholders are put-

given period-say, three to ting into managers hands if five years - through the the return on that money combination of dividends exceeds the opportunity cost to the shareholders of put-The two sides spend a ting it elsewhere, the share

In either case, the scope for consultancy is clear. Directors must learn how to work out what pleases the stock market at the curporate level, then dissect that in terms of individual businesses. They must also work out ways to measure the performance of individuals and compensate them accord-

For exponents of TSR, in working for multinationals especially, this involves benchmarking in stock markets around the world.

What kind of activity commands a high multiple? Having benchmarked the

competition, how can corporations work backwards to ensure their own local operations command the same rating? The answer to these ques-

tions lies in execution. Above all, managers must be supplied with simple and workable yardsticks by which they can measure performance. None of the methods offered by the consulting profession is intellectually irreproachable. The question is whether they make sense to those who have to implement them.

From the profession's viewpoint, one central issue remains. The principle of shareholder value requires managers to accept that the stock market knows better than they do. In recent years, they have been helped to do so by a historically exceptional rate of rise in share prices.

At some point, the markets will revert to trend. Managers may then find shareholder value being subtracted by falling share prices, whatever their efforts to the contrary. If so, management consultants will find that here, too, the compelling nature of their arguments does not exempt them

HOW CONSULTANTS GET PAID . by Richard Donkin

cost of capital.

## Brave new world of fees

Scale and sophistication appear to go hand in hand in with pricing

Broekhuysen: in part, his firm

"Technology conver-

partner at Ernst & Young

Management Consulting Ser-

vices remarks, because IT is

so pervasive - because it is

the only way to get superior

service to customers attickly

or distinctively - then it is

axiomatic that management

consultants must be compe-

tent in the field, or at least

create the illusion of compe-

But, he adds, it also pres-

ents consulting firms with

an old dilemma. If consul-

tants are to offer more than

advice, and there is a view

among clients that "if you

don't play the game you

can't make the rules", then

how can they retain profes-

Ernst & Young's solutions

is to eschew large-scale IT

implementation. For exam-

nle, it uses an Indian soft-

ware house to "cut code".

and currently it is acting as

project manager of an imple-

mentation by Andersen Con-

does mean that some jobs

"But," says Mr West, "it

sional independence.

decided to join EDS because

today.)

tence.

Andersen Consulting's £45m contract to design and run a new national insurance system for the UK represents the brave new world of management consultancy fee

In what even Andersen would admit was a bold initiative, it undercut rival bids by removing the £100m sys-tem development costs and profit margins from the final bill in the belief that it could profit from the value it could take out of the development programme and capitalise upon it elsewhere.

The bid was not without risk and Andersen's had to take delay penalties during the system's development phases. While it is still too early to judge whether the final outcome will leave Andersen in profit, the deal exemplifies the more sophisticated tendering arrangements that are emerging for some of the largest, often public sector, consultancy

"In the old days, management consultancy was very much considered a profession. Now it's considered an industry because the services it needs to provide to a client are much broader than a personal service can said Mr Brian O'Rorke, director of the Management Consultancies Asso-

Scale and sophistication appear to go hand in hand with pricing arrangements. While the traditional fee per hour or day payments system still prevails across the sector, many of the big consultants now offer a variety of fee arrangements often depending on the requirements of the job.

While consultancies such as McKinsey retain the traditional client relationship, some are moving into the partnership area where the consultant runs an entire department for an established period and ties its fee to the results.

EDS, the US computer services company, for example, sive of expenses.

has entered into what it 

mixed pricing - this hapdescribes as a "co-sourcing" pens where the project is arrangement



O'Rorke: 'in the old days, it's considered an industry

Rolls-Royce in the UK. The contract, worth about £1.4bn, to manage Rolls-Royce's information technology over 10 years, is tied partly to stock turnover targets for machine parts. A trend towards perfor-

mance-based tracts - where the consul-tant receives a percentage of the profits generated by the project - has been particularly noticeable among big state and federal government contracts in the US. A \$5.2m contract awarded

to American Management Systems to re-engineer tax collection and administration for the California Franchise Tax Board, completed in 1996, generated incremental tax revenues of \$36m within the first 10 months of operation, paying for itself seven-fold. A research report carried out by the Gartner-Group forecasts that by the year 2000, about half of all large-scale US systems integration projects that use external providers will be performance-based procure-

While several fee permutations exist in management consultancy it is possible to boil them down to about six methods:

• fixed-price - agreed with the potential client, including price per hour or day. This is the normal method of billing where a project can be clearly defined. Potential clients should check whether the fee is also inclu-

with more difficult to define A

client may pay a daily rate between £650 and £1.150 a until the project becomes clear when it can then be billed at a fixed price.

penalty clause. This sets a time target for the consultant. If the date is

pleted at a lower rate. Bonuses for completing factors determining fees. ahead of schedule tend to be Fees in London and the much more rare than penal- Performance-based contracts - these work like a the individual consultant are

contingency payment where the outcome is measurable and the consultant is paid on the basis of a formula attached to the profits generated or cost savings achieved by the consultancy work. Outsourcing contract, where the fee is tied to costs

processing health care • Partnership - where the consultant works with a client, sharing the risk and rewards in terms of future royalties or sales of what-

per transaction - such as

ever system has been developed.

Many firms are cagey about their pricing, partly because rates tend to differ depending on size, length and complexity and the

seniority or reputation of the individual consultant. The 1997 management consultancy fee rate survey\* carried out by Anne Mallach who runs the Management Service found that fees in the UK had risen on average by 17 per cent in the past

two years. The survey of 95 management consultants, ranging from sole practitioners to large international practices operating across the UK, found fees ranging between £200 and £3,000 a day. although the majority of consultants were charging price £27.50.

Fees are climbing again

after a period of stagnation Fee-based with bonus or between 1991 and 1995. The average daily rate is now

The survey found that size missed the job may be com- and geographical location were the most significant South East markedly higher than elsewhere in the UK. Seniority and background of also factors.

The survey gives some insight into the billing practices of consultants. Most recruitment consultants, for example, charge a percent-age fee of the annual salary for the job rather than a daily rate. Among search consultants this usually amounts to between 30 to 35 per cent of the salary.

Some 88 per cent of the consultants surveyed charged fees plus expenses with the remaining 12 per cent including expens

Some 35 per cent of the consultants quoted fees per day or week, while 37 per cent of them quoted per project and 28 per cent quoted either or both, depending on the project

The majority of those surveyed - 67 per cent - bill clients monthly. Smaller numbers bill at different intervals, either fortnightly, weekly or quarterly. Some Consultancy information bill in project stages and some bill on completion.

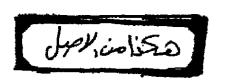
The threat of default, however, has led some consultants to demand a payment up front, said Ms Mallach, This is less likely to happen where a strong client relationship already exists.

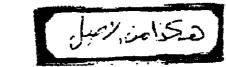
\*Management Consultancy Fee Rate Survey 1997, MCIS, 38 Blenheim Avenue, Gants Hill. Ilford, Essex 1G2 6JQ.

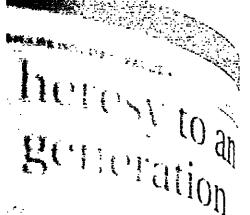
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#### IV MANAGEMENT CONSULTANCY

**OUTSOURCING •** by Nicholas Timmins

## £130m loss leader

Andersen Consulting cut its bid by £100m to win the

consulting and management consulting. In the case of Andersen Consulting it finance initiative. takes the widest possible definition - everything from external assessment and advice, what might be dubbed the most traditional and conservative form of consulting, through to implementation and delivery and on to actual operations.

Over the past two years, Andersen has taken a not inconsiderable risk - taking on, as a loss leader, the design, finance and operation of a new £130m national insurance recording system for the Department of Social Security (DSS).

It is almost certainly the biggest single computing operation in the UK. Nirs2, as the system is known, holds 65m records covering every adult in the country these, 29m are updated annually with one million new records created each

national insurance contribu- possible with conventional tions in weekly and monthly Nirs2 project paypackets. It is also management first, and may well prove to he paypackets. It is also the lectual property rights, the be the only. IT system to be intrastructure it created for handled under the private

> Andersen's won the contract in competition against CSC Computer Sciences and EDS/Sema in a deal which this month the National Audit Office - with the proviso that a final judgment can only be made when the system is fully up and running - described as "strikingly good value for money" for the taxpayer.

> That judgment is in part based on the fact that Ander-sen's final £45m bid to run the project on a seven-year extendable contract was about a third of the bids of £125m and £146m which its rivals entered: each of them far cheaper than the governtackling the job in-house.

The reason, according to and many that are dead. Of Mr Ian Watmore, Andersen's partner responsible for government practice, was that the firm decided to treat

other benefits, and employ- cheap. Because the deal was this system will provide us ers' and employees' ability to done under the PFI, Anderdeduct the correct amount of sen was able, in a way not contracting, to own the intelsoftware and the technology the project: an asset Andersen reckons it will be able to sell at home and abroad.

The ability to handle some 65m records - one that not even banks or utilities routinely require - means that Andersen Consulting has a system which would cope with most countries in the developed world and most big states in the US, Mr Watmore says.

Obvious targets for future business, using the skills acquired, include overseas governments, other parts of a UK benefits system which is about to undergo another radical transformation, perhaps a new National Health Service index, and work for banks, utilities and other ment's original estimate of large-scale processors of consumer data both in the UK and overseas

Essentially, what Andermating in pieces most of the sen's did, Mr Watmore says, rest of the state benefit syswas "put a value on all of tem. Andersens worked on that and decide to take that too - as did, to varying Nirs2 as "an invest- about a £100m cut on our bid degrees, CSC, EDS and

tion of pensions, a string of to date has not proved that we can design and run with future business. We will have a world class reference site to demonstrate what we can deliver."

Under the deal, Andersen is not paid a penny until the system is fully up and running. On top of its original investment, delays in getting the project completed have cost Andersen £23m in lost revenue, extra costs and compensation to the Contributions Agency as a deadline for final phase delivery originally set for February this year had to be moved to April next.

We were able to take the decision to re-phase the project, knowing it would cost us some money, because we are in this for the long haul, and because we need this to be a successful project," Mr Watmore says.

lier social security projects, notably the Operational Strategy of the 1980s - what was then dubbed the biggest civil computerisation project in Europe, aimed at auto-

World's largest consult		es (Sm)	Growth	Effective		ff nambert	· · · · · ·	1996 Revenue
	1996	1995	rate	date	Conscitents	Partners1	Total	per consultant
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Addit Accepted 1	1.379.6	1,160.5				1	n/At	n/a
Price Weterhouse	1,200.0	964.0	24.5	Jun 96	8,900	470	10,300	134,831
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WATER BANKS	656 <sub>.</sub> D						\$20,000	175,871
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	6066	50548.07					AL700	500,0003
Hewitt Associates	568.0	449.0	26.5	Sep 98	12/10/19	<b>1√2</b> 	5,500	L/a
	· 1650/15	200			工人的四天		5.t.000	940,295
Aon Consumnor	490.0	460.0	6.5	Dec 98	T COME	rv/a	4,400	181,481

them with an understanding of the social security system which, at least to some degree, informed their bids It is all a far cry from earfor the very different approach needed for Nirs2. Handled under conventional finance, the Operational Strategy was, how-

ever, a very different s. Essentially the DSS ran the project, aided by its advisers and suppliers. Perhaps 10 to 20 per cent of the project teams computerising den through the spectrum various parts of the benefit from advice to operations ment" - although one which on the basis that proving Sema, providing each of system were Andersen's - an approach which others

people, the rest the department's. This time, under PFI. it was virtually the other way about: Andersen designing, financing, and now operating the system and buying some expertise in from the department. Andersen owns the IT infra-structure - and, despite the

gsa-to-gsa obecation Andersen has always rid-den through the spectrum

word "consulting" in the firm's title, is delivering the

in the business have tended to emulate in recent years, usually by acquisition.

How far that continues under the driver of the pri- but that they in turn, in vate finance intlative - an approach to which the Labour government is committed and which is attracting ever more attention

With the demand for operbas agiseb as they as anota finance, it may encourage other consultancies to broaden their spectrum of to embrace a remarkable activity, Mr Watmore says.

abroad - remains to be seen.

He believes it is at least as likely that a few dominant contractors for such deals. order to win the contracts, will form alliances with smaller and emerging operators, and with companies with niche expertise - their business lying with the big firms rather than direct with ment and

istbinator

Consulting looks set still

government departments.

SHARED SERVICES • by Tony Jackson

## Simple idea can be tricky to execute

Whether or not shared services succeed, there will always be a consultantcy role

Shared services are a lucrative field for consultants these days. The concept is simple enough: that within a corporation, certain functions such as payroll or accounts receivable are taken away from subsidvice centre. By cutting out risks rejection by its clients. duplication - and in some scale – this reduces costs.

But if the concept is simnle execution can be tricky. Increasingly, for example, multinationals are setting up shared services on a pan-European basis. This means codes and legal systems, in different languages. Given the high cost of failure, it consultant with previous experience.

According to Mr David Powell of Ernst & Young, his firm now has clients in shared services who have never used consultants before. Partly, he says, this is because of the novelty and scale of the operation. But it also relates to its cost, in the form of redundancy and other payments.

"We've known companies which have tried to do it on their own," Mr Powell says. They've gone to all the conferences and seminars, and then just wallowed around for two years. But you need to recover your costs in that time. And given there will always be internal resistance to shared services, it needs to be seen to be working from day one."

To date, most service centres have processed financial transactions. The principle is being extended to some human resource functions, and may take in aspects of sales administration, such as order processing and customer service, or legal and tax services. The main users, according to Mr Powell, are US multinationals, especially manufacturers. "What we expect", he says, "is more European multinationals to companies, in financial serrun its course yet."

the pendulum principle of management. In any large corporation, there is a natural tension between centralisation and local autonomy. It is not so long since some companies freed themselves from the tyranny of the central purchasing department, which supplied the wrong kind of office chairs or paper clips for everyone at the cheapest possible price.

Mr Alan Reid of the Management Consultancies Association, says: "It's possible that shared services could turn out to be just another fad. There are times when local autonomy can seem a powerful weapon, in terms of incentives and culture."

Supporters argue it is different this time. The old central purchasing department was a head office function. Today's shared service centre is a free-standing business, based in a green-field location and run by a senior executive on a full-time basis. Its job is to hire and train staff in a service culbusiness units, with which it has service agreements. If it iaries and entrusted to a ser- fails to give satisfaction, it

Conversely, if it builds up its services to other corporations, provided there were no issues of competition, There have been no examples of this to date. But for proponents of shared services it is the natural next reconciling different tax stage. Well, perhaps. The trouble is that once a shared service centre has been set up, there is powerful presmakes sense to turn to a sure on the individual businesses to use it, whether it

provides satisfaction or not. In the case of shared ser vices, there is nowhere else to go - unless, possibly, the corporation takes the next step of outsourcing its services to a management consultant. As for reverting to the status quo, the cost could be formidable. After all, the people who handled the services at the individual businesses have all been

cleared out. In that sense, the move to shared services could be seen as risky on two levels. There is the immediate risk that it will not work prop-erly, which is where the consultants come in. There is also the longer-term risk that it could impose a new rigidity on the organisation.

Despite that, it is easy to see the move continuing. As Mr Powell observes, any initiative which offers immediate cost savings of 25-40 per cent is hard to argue with at a time of intense competi-

Indeed, he argues, the cost savings can be extended: for example, by the so-called "commissionaire" principle. This involves setting up a company for France, say, which technically sells direct to the group's French custake it up, and more service tomers. The local sales company, which supplies the vices especially. It hasn't goods, is treated as an agent working on commission. The It could be argued that local manufacturing plant, shared services exemplify similarly, is paid for the use of its equipment.

In that way, Mr Powell argues, the French operation passes on such operating risks as product obsoles-cence or bad debts. It also incurs less French tax; and the commissionaire, of course, is based in a low-tax country elsewhere.

Although this is technically distinct from shared services, there is an important point in common. Both are radical experiments in corporate structure. There will be more of those to come. And consultants, of course, will have an important role to play in them.

